Handbook of INSURANCE

by

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Life Insurance and Annuities

Accident and Health Insurance

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PREFACE

Insurance is unique in the number of its terms, concepts, notions, and ideas. More than five thousand insurance ideas have been collected, classified, and compiled in this new edition of the *Handbook of Insurance*. To anyone who wishes to obtain a working knowledge of all the numerous forms of insurance—fire, life, annuities, marine, inland marine, casualty, and corporate bonds—the sectionalized and alphabetically arranged insurance "propositions" should be most helpful.

Every effort has been made to make the list of insurance ideas complete. There are many words and expressions peculiar to the practice of insurance, and the *Handbook* defines all such technical terms. The definitions included, however, go beyond just giving the meaning of numerous special insurance words. Attention is also paid to the policy analysis, historical development, legal, rating, underwriting, statistical, and state control phases of insurance. In the separate sections of the book will be found the specialized concepts that are particularly applicable to the section in question.

Most of the concepts found in this *Handbook* have been discussed over and over again in my insurance classes. Prior to the publication of this edition, some two hundred copies of the terms to be included were sent out to insurance company executives, insurance educators, and editors of insurance magazines for their comment, observation, and criticism. I am deeply appreciative of the many letters commenting on the completeness of the list of key topics.

I am grateful to Mr. C. R. Tobin, Special Agent of the Aetna Insurance Company, for suggestions of topics in the fire insurance and casualty insurance lines. I am indebted to Mr. E. M. Miller, of the Ed Miller Agency of Detroit, for suggested lists of topics in the accident and health insurance field.

I am also greatly indebted to the many insurance companies who so kindly furnished me with sample policies, rate manuals, underwriting data, and special company information. I wish I could mention them all by name in this preface because they were so generous. I must thank the many company officials who took time to write me long letters in explanation of their company

practices. I regret that space limitations prevent a more personal mention of their kindness.

I owe a debt of gratitude to my many friends in the insurance business in Cleveland, not only because they furnished me with materials, but also because they were available at all times for consultation and advice. I must thank Mr. Paul R. Whitbeck, of the Evarts-Tremaine-Flicker Company, for furnishing me with insurance company materials. I am grateful to Mr. Clayton Hale, of the insurance firm of Hale and Hale, for his kind and helpful suggestions. In the writing of this revised edition, I am most indebted to my wife, Maxine Thompson Crobaugh, for her valuable assistance with the entire manuscript.

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Section 1

LIFE INSURANCE AND ANNUITIES

A

Absence of insured. It is a principle of the common law that a person who is absent and unheard of for a period of seven years is presumed to be dead. Some of the states have enacted statutes upholding this common-law presumption. The bylaws of mutual benefit associations will generally abrogate the common-law presumption, but such bylaws are usually void if the state has made the rule of evidence effective by a statute. The problem which confronts the life insurance company is the danger of paying a claim while the insured is actually alive but "legally" held to be dead under the well-known common-law presumption.

Absence, sickness, or other inability to comply with the stipulated terms of an insurance contract gives the policyholder no legitimate excuse for the nonpayment of premiums when due. For legal cases on the subject of presumption of death from absence, see Vance, *Handbook of the Law of Insurance,* 2nd ed. pp. 253–4. *See* Disappearance of insured.

Absolute assignment. Because a life insurance policy is a form of personal property, called a *chose in action* in law, it can legally be assigned. An assignment is the transfer of one person's interest in a life insurance policy to another. When the transfer amounts to a sale of the policy it is termed an "absolute" assignment. Under such an assignment, all rights of the insured in the policy are surrendered and only a succeeding absolute assignment by the purchaser can return these rights. Such an assignment to a volunteer beneficiary is equivalent to the designation of a person as the original beneficiary at the inception of the contract. Absolute assignments not made to volunteer beneficiaries or in good faith to purchasers for value may amount to a wagering transaction. A conditional assignment, used most widely for the security of a loan, may be absolute in form. *See* Assignment of policy.

Abstainer. In the application for life insurance, sometimes questions on the extent of the use of beer, wine, whisky, or other intoxicants are asked of applicants. Some applications state: "If not used, how long have you been a total abstainer?" The question is also frequently asked the applicant if he has ever taken treatment or a cure for alcoholism or the drug habit? Answers to questions of this nature influence the acceptance or rejection of the risk. *See* Total abstainer.

Accelerative options. Options are available to policyholders under some contracts to step up the maturity of endowments or to make fully paid-up policies of other types of contracts. Generally, the cash values, existing dividend additions, and accumulated dividends are used to carry out these accelerate options. These options are usually known as: (1) the paid-up option; (2) the endowment option.

Whenever the reserve on a life insurance policy itself plus the increased reserve due to the accumulation of these dividends equals the face amount of the policy, the insurance company will pay this full face amount to the policyholder, even though the date of maturity as fixed in the policy has not yet arrived.

For example, dividends left with a company on an endowment at age 60 may mature such a policy at age 55, the term of the policy being shortened in this way. An ordinary life policy, which is really an endowment at the age at which the mortality table shows no survivors, may be made to mature at some age prior to 96 years.

In the case of ordinary life or limited pay life policies, when the reserve of the contract, in addition to the reserve of the paid-up additions and dividends due, equals the net single premium at the attained age of the policyholder for an amount of the same kind of insurance as the face amount of the policy, the company will give the policyholder a statement showing that his policy is fully paid up, even though the stipulated number of premiums have not been paid. To illustrate: if the total of the reserves and dividends, as considered in the preceding paragraphs, on a 20 pay life policy issued at age 30 equals at age 46 the net single premium for a 20 pay life policy at age 46, the policy would be fully paid up at age 46 instead of at age 50, as stated in the original policy contract. *See* Paid-up option; Endowment options.

Acceptance of applicants. The procedure of accepting or rejecting applicants for life insurance is often referred to as underwriting. The basic sources of information used in determining the acceptance of applicants for life insurance are: (1) the application; (2) medical examination; and (3) inspection reports. Many applicants, especially for industrial and group insurance, are written without a medical examination. *See* Underwriting.

Accidental death benefit. Historically, the first type of accidental death benefit was paid in case the insured was killed while traveling in a train, bus, or some other type of vehicle. These travel or passenger additional accident benefits have now been replaced by the "broad" form of double indemnity provision. Although in most cases the additional benefit is double the face of the policy if death is accidental, the payment may be triple or some other fractional amount of the principal sum of the basic policy to which the additional accidental death benefit rider is attached.

Although uniformity does not exist, many of the companies define accidental death as follows: "resulted, directly and independently of all other causes, from bodily injury effected solely through external, violent, and accidental means, injury is evidenced by a visible contusion or wound on the exterior of the body (except in case of accidental drowning or of internal injury revealed by an autopsy), and that such death occurred within ninety days after such injury was sustained."

Other limitations on the application of the additional accidental death benefit are: (1) Deaths excluded are those resulting: (a) directly or indirectly from or contributed to by physical or mental disease or infirmity; (b) from bacterial infection other than that occurring simultaneously with and through an accidental cut or wound; (c) from self-destruction, whether sane or insane; (d) from participation as a passenger or otherwise in aviation or aeronautics; (e) from the taking of poison or the inhaling of gas; (f) from riot, insurrection, or war, or any act incident thereto; (g) from violation of law by the insured; (2) the coverage terminates at age 65 or 60 as a general rule. *See* Double indemnity.

Accrual of discount. When a bond is purchased by a life insurance com-

pany at a discount or below par, the accounting process of writing up the book value is known as "accrual of discount." Additions in the increase of the principal value of the bond as it nears maturity are successively added to the coupon amount from the viewpoint of the effective interest earnings. For principles and illustration of the computation of accrual of discount or amortization of bond values, see Justin H. Moore, *Handbook of Financial Mathematics*. *See* Amortization.

Accrued interest. One of the nonledger assets found in the annual statement of life insurance companies is the item for "interest and rent due and accrued." Accrued interest is really overdue interest. If there is adequate security behind the indebtedness, accrued interest may be a sound asset. *See* Annual statement.

Accumulated dividends. Since mutual companies charge initial rates that are admittedly higher than are actually necessary for the risk involved, provisions are made that from time to time refunds or so-called dividends are to be made to the policyholders. Under most life insurance policies several options exist as to how these dividends may be applied. To illustrate, dividends may be: (1) taken in cash by the policyholder; (2) applied on his premium payment; (3) left with company to purchase a "paid-up addition" to the policy; or (4) left with the company to accumulate and to enable the policyholder to withdraw the dividends on any policy anniversary. If the dividends that are allowed to accumulate with the company, generally at interest, are not withdrawn prior to the maturity of the policy, they will be paid at maturity to the beneficiary under the same terms as the principal proceeds of the policy. On nonparticipating policies increases to the face value of the policy may be obtained for a small additional premium charge. *See* Accelerative options.

Accumulated for policyholder. Any premiums paid in advance, dividends left to accumulate, and interest earned, plus retroactive premium reduction refunds, if any, can be called accumulations for the policyholder and/or beneficiary. For example, upon the death of the insured any advance premiums in possession of the company would be refunded either to the insured's estate or to the beneficiary. *See* Policyholder's fund.

Accumulation basis of valuation. *See* Valuation on accumulation basis.

Accumulative single premium retirement annuity. A novel annuity plan issued by some companies provides in one policy contract for the purchase of various units of single premium retirement annuities at the convenience of the annuitant without the necessity of issuing a new contract each time an additional lump sum purchase of such an annuity is made. This accumulative annuity is sometimes called an "optional deferred income annuity with variable deposits." The object of this accumulative plan is to make it more convenient for persons to make successive purchases of single premium retirement annuities.

An initial deposit is generally required for the issuance of this contract which may be as small as $500 in some cases or as large as $2,500 in other instances. The minimum placed upon additional deposits is frequently as low as $100 although some companies require additional deposits to equal $1,000. Not infrequently a maximum total of premiums is placed at $50,000. Corporation pension plans are sometimes not subject to these limitations. The charges for this accumulative retirement annuity are frequently the same as for the non-accumulative single

premium retirement annuity. Under the accumulative retirement annuity written by some companies the annuitant is allowed to make additional purchases within seven years from the date of issue in accordance with the same table of rates as that under which the original contract was written. After seven years from such date any new purchases are subject to the then published rates of the company. At the time of payment an official receipt is given for each additional purchase. A certificate may also be given to the annuitant specifying the date of purchase and the amount.

Aside from this accumulative feature the provisions of this annuity are similar to those of the non-accumulative single premium retirement annuity, and the death benefit and cash values are included.

This scheme is ideally suited not only for persons whose incomes vary from year to year to the extent that they do not wish to bind themselves to making definite annual payments but also for persons who do not want to bother with a number of separate contracts. Another object of this plan is to provide employers with a pension plan under which the annual deposit each year may be adjusted to the earnings.

Acquisition costs. Field organization and operation expenses, advertising, sales promotion, and agency commissions are frequently called acquisition costs. Such costs may also include home office expenses and salaries that are directly related to the procuring of business. Apparently there is no set method that correctly reflects acquisition costs. Comparisons gleaned from the company's financial statements are likely to be misleading. *See* Expenses.

Action against company. *See* Action in law or equity.

Action in law or equity. Some life insurance policies provide that no action in law or in equity shall be brought against the company unless commenced within five years after the cause of action shall accrue. Many states, however, have passed statutes that control the time limits within which suits may be commenced upon the policy. Consequently, if a time limitation stated in a policy is less than that permitted by the laws of the state in which the application is signed, the period is extended to the minimum period required by the state law. *See* Suit or action against company.

Actively engaged. The term *actively engaged* in the insurance business refers to a condition where, during the year preceding the application for renewal of a license, the person seeking such renewal shall have written or placed a total volume of premiums on insurance for others greater than the total volume of premiums which the said applicant shall have written or placed upon his own property or risks, or upon the property or risks of his employer, or both.

Actual and expected expenses. One of the assumptions in the calculation of the gross premium in life insurance is a "loading" for expense. If the "loading" is not enough to cover the expenses, then the actual expenses exceed the expected expenses. On the other hand, if the loading is more than enough to provide for all expenses, the actual expense is less than the expected. *See* Loading; Net premium; Gross premium.

Actual and expected interest. An assumption in the calculation of the net premium, as well as the reserves, in life insurance is a rate of interest. If an insurance company assumes that it will earn three per cent on its funds, and actually earns four per cent, obviously there has been a gain

from interest; the actual interest earned has exceeded the expected amount of interest. On the contrary, if the expected rate was three per cent, but the interest actually earned was only two and one-half per cent, there would be a loss from interest; the interest expected was short of what was the actual interest. *See* Net premium; Gross premium.

Actual and expected mortality. This term refers to the real mortality experience of a company in contrast to the expected mortality. The number of deaths among a company's policyholders may actually coincide with the expected mortality, or it may be less or greater than the expected mortality. The relation of the actual to the expected mortality is an important factor in life insurance calculations. If the mortality experienced by a company is less than that expected, the experience may be said to be favorable. The expected mortality of an insurance company depends on the particular mortality table used.

Many factors, of course, enter into the actual mortality experience of a company, such as kind of business written (industrial or ordinary), territory in which company conducts business, selection of risks, age of company, and so forth. The mortality experience of a company will be higher the older the company is unless this is offset through the addition of fresh lives. One important consequence of a low actual to expected mortality is the possibility of a larger dividend payment through this savings in mortality. *See* Mortality tables.

Actual cost of insurance. *See* Net costs.

Actual (coverage) insurance. The actual insurance or protection coverage, sometimes called the "net amount at risk," is the difference between the face amount of the policy and the policyholder's savings or the reserve. For example, if the face amount of the policy is $1,000 and the savings or reserve amounts to $27.80, the actual coverage, or the amount for which the company is liable in case of death as "protection," is $972.20. *See* Amount at risk.

Actual or effective interest rate. What constitutes the "effective" interest rate depends on how interest is compounded. A "nominal" interest rate of four per cent if compounded annually will produce an effective interest rate of only four per cent. However, if the interest is compounded semiannually, the actual interest rate will be 4.04 per cent. Likewise, if the compounding is done on a quarterly basis, this four per cent nominal interest produces an effective interest of 4.0604 per cent.

In the case of bonds bought below par, the effective interest earnings will be higher than when bonds are purchased above par. The reason for the higher actual interest on the discount bonds (below par) is that successive additions of the increase of principal value as the bond reaches maturity increase the coupon or nominal interest rate. *See* Amortization.

Actuary. The official statistician of an insurance company, who handles the mathematical work, is known as an "actuary." The actuary is usually responsible for conducting the insurance business on sound calculations with respect to such matters as rates of interest, rates of mortality in life companies, loss ratios, premium rates, reserves, dividends, loading expenses, and so forth. The actuary, in cooperation with the Accounting Department, assists in the preparation of statements required by the insurance departments of the various states.

Actuaries' or Combined Experience Table. This is a mortality table compiled from the experience of seventeen English life companies and published in 1843. It is sometimes called the Seventeen Offices Table because the experience of seventeen British life insurance companies was used in making the table. The table was based upon the experience of 83,905 policies issued from 1762 to 1833. Although little used in England, it was introduced in the United States by Elizur Wright, Commissioner of Insurance for Massachusetts, and was used as the standard by a number of insurance departments for many years. *See* American Experience Table; Seventeen Offices Table; Mortality tables.

Additional accidental death benefit. *See* Accidental death benefit; Double indemnity.

Additional contingent beneficiary. If some other person is designated to receive the proceeds of the policy should the primary beneficiary die before the entire proceeds are paid, this other beneficiary is called a "contingent beneficiary." If the primary beneficiary, upon the death of the insured, names another beneficiary, this other individual is known as an "additional contingent beneficiary." A policy provision on this beneficiary designation usually reads: "The beneficiary, when this policy becomes payable, shall have the right to name a contingent beneficiary if there be then living, no contingent beneficiary designated by the insured."

Additional insurance. A distinction may be made between the use of the term *additional insurance* when it relates to property insurance and when it relates to personal insurance. In considering property insurance, a distinction may be made between what is called "additional insurance" and what is called "excess insurance"; the two terms are usually not used synonymously. In property insurance, additional insurance generally refers to the successive amounts taken out by a policyholder to meet the insurer's requirements on increasing property values as stipulated in reference to coinsurance or other similar policy conditions. Excess insurance, on the other hand, is usually an amount of insurance over the required sum necessary to fulfill coinsurance requirements. As property values increase, or the amount of the stock on hand increases, "additional insurance" is necessary, and this is usually the common and accepted usage of this expression.

In life insurance the term "additional insurance" is used to describe amounts of insurance taken out subsequent to the original or first policy issued by the same or another company. To illustrate: If A takes out a policy on January 1, 1947, and another on April 1, 1947, the second is known as "additional insurance." When additional insurance is desired by those who already have insurance with the same company, a second medical examination is not required, unless a period such as 60 days has elapsed since the risk was examined.

In most forms of property insurance there must be a proper relationship between coinsurance requirements and additional insurance. There is also the necessity of avoiding overinsurance through the taking out of "additional insurance." In life insurance, additional amounts of insurance can be taken up to the limit that the company is willing to write or accept. The doctrine of overinsurance does not have the same application to additional amounts of insurance in life insurance that it does in property insurance. In disability insurance, additional insur-

ance may be purchased continuously after the issue of the first policy up to a company limit of liability in the case of disability payments generally, placed at a certain per cent (usually 80) of the insured's income.

Additional policy. The term "additional policy" is generally used to designate an extra policy issued by a life insurance company at the same time as the policy applied for. Such a policy is delivered in addition to the contract applied for or returned to the company immediately for cancellation. *See* Additional insurance.

Addition, paid-up. *See* Paid-up dividend option.

Addition, reversionary. *See* Dividend addition.

Address of policyholder. Part one of the application for life insurance usually asks for the residence and business address of the policyholder. Sometimes inquiry is made as to the previous address and how long the applicant has lived at his present address. The address of the policyholder is essential for mailing of premium notices as well as probable underwriting information. A question is asked on some applications: "Shall premium notices go to residence or business address?"

Adjustable protection. This adjustable protection plan is really term insurance to age 65 with options for making the "adjustments." Under one type of option the policy may be converted, usually within seven years of date of issue, to a life or endowment policy either at the attained age or as of the original age in exactly the same manner as for other term policies. Under another option an increased premium is paid during the remaining lifetime of the insured, continuing the insurance on the whole life plan for the same face value as the original policy. A third option provides for one-half the original face amount on a whole life plan. Option one merely continues the same premium rate to age 65 when the policy expires without value. Option one becomes automatic if one of the other options is not elected prior to the anniversary nearest attained age 60 of the policyholder. Adjustable protection is found in policies with such trade names as "family protection," "protective policies," and "adjustment policies."

Adjusted premium method. In the first year of a life insurance policy the loading is not high enough to meet the initial expenses and to provide the full level premium reserve. In practice, therefore, most companies have used some modified reserve system. Under these plans a part of the first year's net premium is used for expenses, the reserve reduced, but adjustments are made so that in later years the excess loading plus the full net premium accumulates the proper reserve.

As a result of the new Standard Nonforfeiture Law, a plan somewhat the same as the modified reserve system has been introduced, known as the "adjusted premium method." The main part of the rules for this method is found in section 5 of the act and reads as follows:

The adjusted premiums for any policy shall be calculated on an annual basis and shall be such uniform percentage of the respective premiums specified in the policy for each policy year that the present value, at the date of issue of the policy, of all such adjusted premiums shall be equal to the sum of (i) the then present value of the future guaranteed benefits provided for by the policy; (ii) 2 per cent of the amount of insurance, if the insurance be uniform in amount, or of the equivalent uniform amount, as hereinafter defined, if the amount of insurance varies with duration of the

policy; (iii) 40 per cent of the adjusted premium for the first policy year; (iv) 25 per cent of either the adjusted premium for the first policy year or the adjusted premium for a whole-life policy of the same uniform or equivalent uniform amount with uniform premiums for the whole of life issued at the same age for the same amount of insurance, whichever is less. Provided, however, that in applying the percentages specified in (iii) and (iv) above, no adjusted premium shall be deemed to exceed 4 per cent of the amount of insurance or level amount equivalent thereto. The date of issue of a policy for the purpose of this section shall be the date as of which the rated age of the insured is determined.

See Modified preliminary term plan.

Adjustments. *See* Misstatement of age; Conversion value.

Admission of age. As age is an important factor in determining the premium on a life insurance policy, a misstatement of age calls for an adjustment. Today, virtually all the states have a law which stipulates as a standard policy provision that, in case a misstatement of age is made, the amount of the policy is to be automatically altered to such an amount as could have been purchased at the true age by the premium actually paid. Sometimes errors in age are not actually discovered until the policy matures—frequently a great many years after the application for life insurance was made. An insurance company, however, can indorse the policy and agree to "admission of age" as correct as stated by applicant. Except upon proof of fraud, age so admitted cannot be disputed by the company. *See* Age of insured; Misstatement of age.

Admitted assets. The "convention blank," a form prescribed in all states, requiring insurance companies to file an annual statement, calls for a report on "admitted assets." No precise uniformity exists on what are and what are not admitted assets because some assets may be "admitted" in one state but "not admitted" in another state. Besides, ledger assets are not always the "admitted assets." The solvency of a company and the amount of its surplus are found by a comparison of the admitted assets with the liabilities. The admitted assets of a life insurance company may include the following: (1) cash; (2) bonds; (3) collateral loans; (4) mortgages; (5) real estate owned; (6) loans to policyholders; (7) interest due and accrued; (8) premiums due and in the process of collection; and (9) stocks. *See* Annual statement; Convention blank.

Admitted company. *Admitted company* is a term that designates companies duly certified to do business under the provisions of the laws of a state. *Nonadmitted companies* designates companies not licensed to do business in a state under the provisions of its laws. *See* Certificate of authorization; Nonadmitted companies.

Advance-in-age plan. One of the methods of treating substandard life risks is to rate up the risk a stipulated number of years, in order to take care of the extra hazard involved. To illustrate: if, at age 30, the premium on a 15-payment, nonparticipating life is $29.30, rated up 5 years, the premium will be $33.21. A substandard risk at age 30, rated up in this way, will pay $3.91 additional for $1,000 and will be entitled to the dividends and nonforfeiture values at the rate-up age.

This method of handling the substandard risk seems logical if the extra risk is definitely of an increasing nature and at the same time is likely to continue to increase permanently at an accelerated rate. Arguments advanced in behalf of this plan are:

(1) its simplicity; (2) the fact that it is generally comprehended by the insured; (3) higher dividends available; (4) higher cash and paid-up values. For criticisms of this plan see Charles K. Knight, *Advanced Life Insurance*. *See* Extra premium; Lien system; Extra percentage tables.

Advance premium mutuals. If a company collects the premium with the application, as is done by the commercial and industrial mutual companies, the name "advance premium mutual" is given to these companies. In some assessment associations, premiums are not collected until the end of the policy year. Unless a "stipulated" premium system is used, the policyholder under the assessment system does not know what the premium amount will be.

Advance premium payments. All life insurance premiums are paid in advance except under certain assessment plans. However, some life insurance companies permit policyholders to pay annual premiums in advance beyond the usual one year. In fact, various numbers of annual premiums may be paid in advance, and a discount is allowed in accordance with a schedule of discount factors.

Now the discount table assumes that the first annual premium is due immediately without discount, but subsequent premiums are discounted on an annual discount rate. This rate will vary from time to time depending on the trend of the rate of interest. At three and one-half per cent, the premiums would be discounted according to the following table:

Paid-in-Advance	*Discount Factor*
1 year	.96618
2 years	.93351
3 years	.90194
4 years	.87144
5 years	.84197

The above figures are based upon a premium of one dollar and should be multiplied by the amount of the annual premium. For example, if an annual premium of $100 is paid four years in advance, the amount required is $400 times .87144 or $348.58. Generally, life insurance companies do not pay commissions on premiums paid in advance until the actual due date of the premium.

Advance to agent. Insurance agents, as a rule, receive their remuneration in the form of commissions. In ordinary practice, the agent collects the premium from the policyholder and, after deducting the amount of his commission, sends the balance to the insurance company. Sometimes the practice is followed by insurance companies of sending money to agents to pay their soliciting and office expenses. These loans, commonly known as "advances," are to be met by the agent through renewal commissions or first-year commissions on new business.

Adverse selection. When a policy of insurance is purchased only when an emergency exists, this condition constitutes what is known as selection against the insurance company in the taking of insurance. Such a condition exists also when the poorer risks retain their insurance and the best risks lapse or surrender their policies. In life insurance, in particular, consciously or unconsciously, the undesirable risks seek insurance whereas there is a greater willingness of the healthy lives to drop their policies. The effects of adverse selection are likely to show up in the actual mortality rate.

An abnormal percentage of its insurance in force is on "adverse" risks when a life insurance company has poor management in the selection of risks. Such a condition may also occur after a company has experienced

an abnormally large lapse ratio. lapses are generally heaviest during a business depression. These withdrawals, usually by insureds in good health, may ultimately raise the mortality of the members who remain on the books.

Advertisements. It has been held in some cases that advertisements, circulars, or pamphlets printed to induce people to buy insurance may bind the company as representations. In *Rohrschneider v. Knickerbocker Life Ins. Co.*, 76 N. Y. 216, 32 Am. Rep. 290, it was held that a pamphlet asserting that a person could obtain as much insurance in that company as in any other for half the money (one-half the premiums to be paid in cash and the other half in premium notes that would never have to be paid because the dividends would pay the notes) was binding upon the company in a case where the dividends did not pay the other half of the premium.

Insurance advertising has become a very important part of the insurance business in recent years. Advertising is carried on by insurance companies for many purposes, such as: (1) to secure agents and develop production force; (2) to build up business by helping agents to sell; (3) to increase public esteem by good will and institutional advertising; and (4) to promote the insurance idea by co-operative advertising. Some of the chief advertising media consist of newspapers, direct mail, billboards, novelties, and so forth. It appears to be the general opinion of insurance advertisers that advertising alone will never build a large volume of business, but that it is essential to follow up any advertising campaign with personal solicitation.

Advertisements of annual statements of insurance companies are required by the laws of most of the states. California, for example, provides that an abstract of the annual statement must be published daily for one week in some daily newspaper of general circulation, or four consecutive times in a weekly newspaper in the city where the principal office in California is located. In the state of Illinois, to give another illustration, the annual statement of fire, marine, fidelity, surety, and casualty insurance companies must be published in two newspapers—one in Springfield and the other in Chicago—for 15 days. The insurance companies must pay the cost of these advertisements, and this publication fee amounts to a tax upon the business.

Most life insurance companies will not allow their agents to publish anything concerning the policies or the business of their own or any other company without approval from the home office. In order to issue circulars, agents must obtain permission in writing from their companies. *See* Publication; Gifts for insurance.

Advisor. The insurance laws of Maryland define an insurance advisor to mean

> any person who, for money, fee, commission or any other thing of value offers to examine, or examines any policy of insurance or any annuity or pure endowment contract for the purpose of giving, or gives or offers to give, any advice, counsel, recommendation or information in respect to the terms, conditions, benefits, coverage or premium of any such policy or contract, or in respect to the expediency or advisability of altering, changing, exchanging, converting, replacing, surrendering, continuing or rejecting ay such policy or contract, or of accepting or procuring any such policy or contract from any insurer, or who, or which, in or on advertisements, cards, signs, circulars or letterheads, or elsewhere, or in any other way or manner by which public announcements are made, uses the title "insurance adviser" "insurance specialist,"

"insurance counselor," "insurance analyst," "policy holders' adviser," "policyholders' counselor," "refund company," or any other similar title, or any title indicating that he gives, or is engaged in the business of giving advice, counsel, recommendation or information to holders of policies of insurance or annuity or pure endowment contracts, shall be deemed an insurance adviser.

The state requires insurance advisors to pass an examination and to be licensed.

Aeronautics. *See* Aviation hazard.

After lifetime, average. *See* Expectation of life.

Age change. In life insurance practices, a day arrives in the life of an individual when he becomes a year older for life insurance coverage and rates. This change takes place in ordinary life insurance midway between anniversaries of birth. In industrial life insurance, on the other hand, the change occurs on the anniversary of birth. Some companies permit the dating back of policies to save age change premium costs. The rulings of Insurance Commissioners or the laws of many states prohibit this practice. *See* Change in age; Change of age savings; Dating back; Age of insured.

Age factors. Age plays an important part in life insurance in a number of ways. The rate of mortality increases with the age of the insured. Age, therefore, is a significant factor in determining the cost of life insurance. Most companies fix minimum and maximum age limits for the underwriting of certain policies. In the treatment of substandard risks, some companies use the rate-up of age method for determining the extra premium charged on risks of a definitely increasing type.

Another age factor is the correction of the amount due under a policy because of a misstatement of age by the policyholder. Proof of age is also sometimes required, either at the time of the issuance of the policy, or when a claim is made. *See* Misstatement of age; Proof of age.

Agency. An *agency* may be defined as the relation between two or more parties, as a result of which one party, generally called the agent, is authorized to transact certain business for the employer, or principal. An insurance agency may be an individual enterprise, a partnership, or an incorporated concern. *See* Agent.

Agency expense. Payments to the field force for selling and servicing of life insurance constitute perhaps the chief agency expense item. One life insurance company, in its annual statement to policyholders, shows that out of each dollar paid out 7.5 per cent went for payments to field underwriters and agency managers, and other field expenses. Another company reports that 4.5 cents out of each dollar was paid for commissions and agency expenses. *See* Expenses.

Agent. An insurance agent or agency is any person, partnership, association or corporation who, or which, solicits, negotiates, or effects on behalf of any company, contracts for insurance. An insurance agent is a representative of the insurance company for which he is licensed. An insurance agent places his insurance business with the insurance company for which he is licensed.

The Insurance Laws of Ohio define a life insurance agent (Sec. 654–2) as "a person who solicits or negotiates for or places or renews policies or agreements of life insurance for a consideration or compensation given, paid, or promised by any firm or person." *See* Broker; Solicitor; Company service representative.

Agent's declaration. In the actual writing of insurance, the local agent or solicitor is often in an advanta-

geous position to select the risks with care, for he comes in direct contact with the applicant. This is particularly true when the policyholder is well known to the agent, for this personal knowledge of the assured enables the agent to know whether the applicant is financially and morally responsible. Since an agent's knowledge of a risk is considered valuable information for underwriting and other purposes, many companies require agents, in submitting applications for consideration to the home office, to accompany such an application with a so-called "agent's declaration." In brief, such a declaration, or agent's certificate, contains the personal recommendation of the local agent or solicitor, where the prospective assured is sufficiently well known to the local producer. Frequently it includes information relative to the character of the risk and especially the length of time the agent has personally known the applicant, estimates the applicant's worth and annual income. In case the local producer is not sufficiently acquainted with the applicant to make a personal recommendation of the risk, he may be required to give certain facts concerning the applicant, such as how the business was secured. The length of time the applicant has been known to the agent is often of value in passing upon the acceptance of the risk. The company may require some statement from the branch office or general agent regarding its or his opinion of the dependability of the judgment of the local agent.

Agent's note. Under the rules of many companies, agents are permitted to accept a note or other negotiable instrument in payment of initial and renewal premiums. Generally these notes are for limited periods such as two or four months. In many cases the agent must endorse the note and is held liable for the term insurance charge if the applicant fails to pay the note. According to a ruling of the Superintendent of Insurance of Ohio, "any note or other instrument given in payment of the initial premium must bear interest at the legal rate, which in this state is six per centum per annum." For a typical example of various rules and regulations on notes see the *Field Manual,* The Penn Mutual Life Insurance Company. *See* Cognovit note.

Agent's power to waive policy provisions. One fact of great importance in insurance is the operation and conduct of the business by agents acting for the companies. The relation of principal and agent is of tremendous significance in the business of insurance. Under the law of principal and agent, a representative of the insurance company acting within the apparent scope of his authority may bind the principal in dealings with an assured.

In order to limit the apparent powers of their agents in dealing with applicants for insurance, the life insurance companies insert certain notices in their application blanks and in their policy forms. A limitation of the agents' power to waive policy provisions is proper if communicated in the application, the policy, or orally, or by writing in some other way not directly connected with the contract made. Typical of such a notice in an application for life insurance is the following: "Only the President, a Vice-President, a Secretary or an Assistant Secretary may make, modify or discharge contracts or waive any of the company's rights or requirements, and then only in writing." Found in all life insurance policies is a "communication" of this nature: "No agent is authorized to make or modify this contract, or to extend the time for the payment

of premium, or to waive any lapse or forfeiture or any of the company's rights or requirements." For extended discussions of the limitations upon the powers of agents in insurance, see the well-known legal treatises on the law of insurance such as Vance, Richards, Patterson, Couch, and Cooley. *See* Alteration of policy; Changes in policy.

Agent's qualification laws. The object of these laws is to ascertain if an agent is competent, by training and experience, to engage in the business of selling insurance, and if he has the right qualifications as to character and reputation. In many states new applicants for a license must satisfactorily pass a written examination on the subject of insurance coverages, policy provisions, the insurance laws of their state, and so forth.

Back of the movement for agents' qualification laws is the desire to limit the field to qualified agents. The insurance business today, in all its ramifications, is becoming somewhat technical in many of its aspects. To serve the interests of the assured and to act as a proper counselor in insurance matters, the agent must have a working knowledge of the business. The idea is to raise the standards of the business to that of a profession comparable to the practice of law and to eliminate the "part time" agent and the solicitor who is undesirable. The National Association of Insurance Agents and its allied bodies are active in this movement.

In some states a license may be denied to an agent or broker, or a license issued revoked, if the holder or applicant has: (1) willfully violated any provision of the insurance laws; (2) intentionally made a material misstatement in the application to qualify for a license; (3) obtained or attempted to obtain a license by fraud or misrepresentation; (4) been guilty of fraudulent or dishonest practices; (5) misappropriated, or converted to his own use, or illegally withheld monies required to be held in a fiduciary capacity; (6) demonstrated incompetency to transact business as an insurance agent or broker; (7) materially misrepresented the terms and conditions of policies of insurance or contracts which he seeks to sell or has sold; and (8) ceased to be actively engaged in the business of selling insurance to others. See Section 644 of Ohio Insurance Laws for an example of an agents' qualification provision.

Age of annuitant. The age of the annuitant is a very important matter because it is a factor in the cost of the annuity. The age at last birthday is generally used for determining premiums for immediate life annuities, and an allowance is made for each month or quarter year elapsed since last birthday. Retirement annuities, however, usually follow the practice of life insurance, and the age at the nearest birthday is commonly used. The exact date of birth giving the day, month, and year must be stated in the application. In addition to this statement of the age of the annuitant, authentic proof of age is generally required.

In general, the provisions of the annuity contracts issued by the majority of companies provide in case of misstatement of age for the proportional adjustment of the annuity income in accordance with the correct age of the annuitant.

Misstatement of the age of the annuitant, according to the laws of the various states, does not void the contract, but the amount of income payable to the annuitant under the contract must be adjusted to the income which the premium or premiums would have purchased at the com-

pany's rates at the date of issue for the correct age. The New York law on standard provisions for annuities also specifies that any overpayments by the company on account of misstatement of age, may, with interest not in excess of six per cent, be charged against the current or next succeeding payment or payments to be made by the Company under the annuity.

In general, it should be said that this legal requirement regarding misstatement of age is a good rule because it is equitable to both the annuitant and the company, and also it is fair to all the company's annuitants. Sometimes errors in age are not discovered until the annuity contract becomes a claim, which frequently is a considerable time after the application was submitted. This rule tends to emphasize the importance of securing evidence of age promptly.

Age of insured. For life insurance purposes, the age of the insured is determined by the birthday of the applicant nearest to the date of the application. For example, if the actual age of the applicant on the date of the policy is 35 years and 7 months, the insurance age is 36 years. To take another illustration: Applicant was born January 15, 1895. If the application is dated July 14, 1945, applicant's insurable age (age nearest birthday) would be 50; whereas if dated July 15, 1945 (one day later), his insurable age would be 51 years. The application for life insurance calls for statements from the applicant as to "date and place of birth" and "age at nearest birthday." Agents are often advised to be careful to ascertain the exact date of birth first, and then to calculate the correct age; not first to obtain the age of the applicant and then calculate the year of birth, a reversal of the right procedure. Age is an important factor in the premium charge for life insurance. *See* Misstatement of age; Change in age.

Age-rating method. *See* Advance-in-age plan.

Aggregate mortality table. An aggregate table of mortality is made up of both the freshly selected lives (select table) and the experience after the first few years following the medical examination (ultimate table). Such a table of mortality is also called a mixed table. It is a mixture of mortality rates for some members during the select period and other risks beyond the select period. *See* Select mortality table; Ultimate mortality table; American Experience Table.

Aggregate valuation. This represents the sum of all the policy values of a life insurance company. It is the aggregate reserve liability of the insurance company. Policy reserves are liabilities of a life insurance company which with future premiums and interest earnings provide for the payments of benefits as they fall due under the policies in force. *See* Full preliminary term plan; Mean or midyear value; Modified preliminary term plan; Select and ultimate method; Valuation standards.

Albumin. Many impairments enter into the classification of risks for life insurance in the substandard group. The presence of albumin in the urine may render a risk substandard or compel the insurance company to reject it entirely. *See* Substandard insurance.

Alien, insurance of. For purposes of insurance, aliens may be divided into two classes: (1) friendly aliens; and (2) alien enemies. Generally speaking, insurance may be written either on the lives or property of friendly aliens in nearly the same manner as for citizens, although many insurance companies place aliens on their re-

stricted or prohibited risks. This is especially true when the moral hazard appears to be great.

An important question arises when a friendly alien becomes an alien enemy, and because of war is unable to pay premiums or meet the conditions of the policy. In such event, what becomes of the policy or the proceeds of such a policy? Different rulings have been made by the courts. Under the so-called "New York Rule," a life policy is suspended and reinstatement is allowed later on. On the other hand, under the so-called "Connecticut Rule," the policy is forfeited entirely if the policyholder is not protected by a nonforfeiture provision. When the insured becomes an alien enemy, under a decision by the Supreme Court of United States (*New York Life Insurance Co. v. Statham,* 1876) the policy terminates, but what amounts to approximately the reserve on the policy belongs to the insured.

Alien life insurance company. If a company is organized and chartered in any other country than the United States, it is defined as an "alien" company by many of the state insurance codes. Such a company may operate in any state provided it has complied with all of the legal requirements of the state in which it desires to be licensed. *See* Domestic Company; Foreign Company.

Allocation of statement items. In life insurance financial practices there is the problem of charging each branch of a company with its proportionate expenses, and crediting the branch with its proper share of income. This question of the correct allocation of income and expenses is perhaps somewhat more complicated in companies writing both ordinary and industrial insurance than in just a straight one-line underwriter. The Insurance Department of the State of New York, in its *Report on Examination of the Metropolitan Life Insurance Company, Special Study of Industrial Insurance* (December 27, 1937, page 8) said: "The Company's methods provide a breakdown of every item in the annual statement into the amounts allocable to each department." *See* Expenses; Annual statement.

Allowance for direct premium payment. Most industrial life insurance premiums are collected weekly by agents who call at the homes of the policyholders. Industrial companies, however, allow a reduction (or refund) in the premium to the weekly premium policyholder who pays his premiums directly. The practice of the leading companies is to return as an allowance for direct payment, ten per cent of all weekly premiums paid directly. New York State passed a law in 1941 requiring a refund allowance provision to be included in all industrial policies issued to residents of that state after the enactment of the law. Direct premium payments help to reduce the cost of industrial life insurance. *See* Industrial life insurance; Weekly premium insurance.

Alteration of policy. Once an insurance contract is made, alterations in the terms of the contract must be made by consent of both parties to the agreement. Such changes in policies of insurance are carried out by means of indorsement and riders. Most insurance contracts make provisions for alterations or changes in the terms of the agreement, but provide that, so far as the company is concerned, no change in the agreements, conditions, or declarations of a policy are valid unless made as an indorsement signed by an executive officer of the company. Typical of such a limitation of authority provision is the following: "This policy

cannot be varied or altered, or its conditions waived or extended, in any respect, except by written agreement of the Company, signed by the President, a Vice-President, the Secretary, an Assistant Secretary or the Actuary, whose authority in this respect shall not be delegated." *See* Agent's power to waive policy provisions.

Alternate policy. Applicants for life insurance are sometimes turned down for the particular form of policy for which they apply. Usually the insurance company has an objection to issuing a specific type of policy at a certain rate because of the prospect's physical or occupational hazard, or for some other reason. In such a case the company may make what it terms the "best offer" it can under the circumstances to the prospect; in other words, an "alternate" policy is offered. Sometimes, however, alternate policies are requested when the applicant is in doubt as to the kind of policy or the amount, and it is necessary for the agent to present both policies in order that the applicant may choose between them.

A distinction must be made between additional insurance and alternate policies. The name "alternate policy" designates a second policy issued at the same time as the policy applied for, but with the understanding that it is to be delivered to the applicant in place of, not in addition to, the policy applied for. In company practice additional insurance is generally issued under different policy numbers. Alternate policies, on the other hand, are issued under the same policy number, and only one of the policies can be placed.

Ambiguous clause. Such a provision in an insurance policy is one having a doubtful or an uncertain meaning. This kind of clause is capable of being construed in either of two or more possible ways. In case of a controversy between an insurance company and a policyholder over the real meaning of an ambiguous clause, the courts have tended to interpret the clause in a manner most favorable to the assured.

In the case of *Liverpool Insurance Company v. Kearney* (180 U. S. 132, 1901) the court said: "To the general rule there is an apparent exception in the case of contiacts of insurance, namely, that where a policy of insurance is so framed as to leave room for two constructions, the words used should be interpreted most strongly against the insurer. This exception rests upon the ground that the company's attorneys, officers or agents prepared the policy, and it is its language that must be interpreted."

This rule of giving the benefit of the doubt to the insured in case of ambiguity is not so generally enforced, perhaps, when companies are required to use policies prescribed by statutes and made compulsory in use. However, even when the form and content of policy is required by statute, the weight of court opinion appears to favor the policyholder. In the case of *Matthews v. American Central Insurance Company* (154 N. Y. 449, 1897) the court said: "The policy, although of the standard form, was prepared by insurers, who are presumed to have their own interests primarily in view, and hence, when the meaning is doubtful, it should be construed most favorably to the insured."

American Annuitants' Table of Mortality. In 1920 Arthur Hunter compiled the American Annuitants' Table of Mortality from the experience of 20 American companies underwriting about 95 per cent of the annuities on single lives resident in the United States. This investigation covered the experience up to and

including 1917 on immediate annuities on single lives excluding those with refund provisions or guarantees for a period of years. The study indicated that the annuity values on the mortality of American Annuitants were higher for men than those under the McClintock Table of 1899; the former amounted to 6 per cent greater than the latter at age 60 and 12 per cent at age 70. In regard to women there was virtually no difference between the annuity values of American Annuitants and those of the McClintock until after age 50, but the difference became increasingly great with purchase at advancing age. In general, this American Annuitants' Table recorded a lower mortality than former tables. The results and tendencies that it revealed, especially improving mortality, are similar to those indicated from studies of recent experiences. It was superior, for annuities written in the United States, to any previous table and was widely used by companies. But it has now been replaced by the new 1937 Standard Annuity Mortality Table, published in 1938. *See* Annuity tables; McClintock Table; Combined Annuity Mortality Table; Standard Annuity Mortality Table.

American Experience Table. This is the mortality table that has been in general use as the basis for many of the calculations of life insurance companies in the United States, especially those companies operating on a participating basis. The table was constructed by Sheppard Homans in 1868, from the experience of the Mutual Life Insurance Company of New York. It begins with 100,000 persons at age 10, and fixes age 96 as the time when all will be dead. Although not an accurate measure of modern mortality rates, especially at the lower ages, this table has been in use for over 75 years because of the absence of a more suitable modern table, as well as for legal and other practical reasons.

The American Experience Table is what is known as an ultimate table of mortality. The facts compiled to make up the table were based upon the history of lives that had passed by physical examination at least five years before they were taken into consideration in the table calculations. As a consequence of this fact, the rate of mortality of the American Experience Table is considerably higher than the rate of mortality for a select mortality table. It is also true that the rate of mortality in the American Experience Table is materially greater than is the actual mortality of most of the American insurance companies. The American Experience Table of Mortality, with Craig's Extension below 10, is as follows:

AMERICAN EXPERIENCE TABLE OF MORTALITY

Age	*Number Living at Beginning of Year*	*Number Dying Within the Year*	*Number Dying During Year per* 100,000
0	143,819	22,249	15,470
1	121,570	7,719	6,349
2	113,851	4,042	3,550
3	109,809	2,625	2,390
4	107,184	1,897	1,769
5	105,287	1,432	1,360
6	103,855	1,181	1,137
7	102,674	1,001	974
8	101,673	877	862
9	100,796	796	789
10	100,000	749	749
11	99,251	746	752
12	98,505	743	754
13	97,762	740	757
14	97,022	735	760
15	96,258	732	763
16	95,550	737	766
17	94,818	729	769
18	94,089	727	773
19	93,362	725	777
20	92,637	723	781
21	91,914	722	786
22	91,192	721	791
23	90,471	720	796
24	89,751	719	801
25	89,032	718	807
26	88,314	718	813
27	87,596	718	820
28	86,878	718	826
29	86,160	719	835
30	85,441	720	843

Age	Number Living at Beginning of Year	Number Dying Within the Year	Number Dying During Year per 100,000
31	84,721	721	851
32	84,000	723	861
33	83,277	726	872
34	82,551	729	883
35	81,822	732	895
36	81,090	737	909
37	80,353	742	923
38	79,611	749	941
39	87,862	756	959
40	87,106	765	979
41	77,341	774	1,001
42	76,567	785	1,025
43	75,582	797	1,052
44	74,985	812	1,083
45	74,173	828	1,116
46	73,345	848	1,156
47	72,497	870	1,200
48	71,627	896	1,251
49	70,731	927	1,311
50	69,804	962	1,378
51	68,842	1,001	1,454
52	68,841	1,044	1,539
53	66,797	1,091	1,633
54	65,706	1,143	1,740
55	64,563	1,199	1,857
56	63,364	1,260	1,989
57	62,104	1,325	2,134
58	60,779	1,394	2,394
59	59,358	1,468	2,472
60	57,917	1,546	2,669
61	56,371	1,628	2,888
62	54,743	1,713	3,129
63	53,030	1,800	3,394
64	51,230	1,889	3,687
65	49,341	1,980	4,013
66	47,361	2,070	4,371
67	45,291	2,158	4,765
68	43,133	2,243	5,200
69	40,890	2,321	5,676
70	38,569	2,391	6,199
71	36,178	2,448	6,767
72	33,730	2,487	7,373
73	31,243	2,505	8,018
74	28,738	2,501	8,703
75	26,237	2,476	9,437
76	23,761	2,431	10,231
77	21,330	2,369	11,106
78	18,961	2,391	12,083
79	16,670	2,196	13,173

See Combined Experience Table; American Men Tables; Commissioners' Standard Ordinary Mortality Table.

American Men Tables. As a result of the American Canadian Mortality Investigation of 1900 to 1915, three new mortality tables were developed. These are known as ultimate, select, and select and ultimate tables. In some states the American Men Ultimate Table (AM (5)) has been required for the determination of reserves, and some companies have used this table for the calculation of net premiums. However, the use of this table in many states has not been found possible because of the prevailing insurance laws.

AMERICAN MEN TABLE OF MORTALITY

With Death Rate per 1,000 and Expectation of Life

Age	Number Living	Deaths Each Year	Death Rate per 1,000	Expectation of Life
15	100,000	346	3.46	50.06
16	99,654	352	3.53	49.23
17	99,302	360	3.63	48.40
18	98,942	367	3.71	47.58
19	98,575	376	3.81	46.75
20	98,199	385	3.92	45.93
21	97,814	393	4.02	45.11
22	97,421	401	4.12	44.29
23	97,020	406	4.18	43.47
24	96,614	411	4.25	42.65
25	96,203	415	4.31	41.83
26	95,788	417	4.35	41.01
27	95,371	419	4.39	40.18
28	94,952	419	4.41	39.36
29	94,533	419	4.43	38.53
30	94,114	420	4.46	37.70
31	93,694	420	4.48	36.87
32	93,274	421	4.51	36.03
33	92,853	426	4.59	35.19
34	92,427	433	4.68	34.35
35	91,994	440	4.78	33.51
36	91,554	452	4.94	32.67
37	91,102	466	5.12	31.83
38	90,636	482	5.32	30.99
39	90,154	501	5.56	30.15
40	89,653	524	5.84	29.32
41	89,129	549	6.16	28.49
42	88,580	579	6.54	27.66
43	88,001	611	6.94	26.84
44	87,390	648	7.42	26.03
45	86,742	689	7.94	25.22
46	86,053	733	8.52	24.41
47	85,320	783	9.18	23.62
48	84,537	836	9.89	22.83
49	83,701	896	10.70	22.06
50	82,805	959	11.58	21.29
51	81,846	1,026	12.54	20.53
52	80,820	1,101	13 62	19.79
53	79,719	1,178	14.78	19.05
54	78,541	1,263	16.08	18.33
55	77,278	1,350	17.47	17.62
56	75,928	1,444	19.02	16.93
57	74,484	1,541	20.69	16.25
58	72,943	1,642	22.51	15.58
59	71,301	1,746	24 49	14.93
60	69,555	1,856	26.68	14.29
61	67,699	1,965	29.03	13.67
62	65,734	2,076	31.58	13.06
63	63,658	2,188	34.37	12.47
64	61,470	2,298	37.38	11.90
65	59,172	2,406	40 66	11.34
66	56,766	2,508	44.18	10.80
67	54,258	2,606	48.03	10.28
68	51,652	2,694	52.16	9.77
69	48,958	2,773	56.64	9.28
70	46,185	2,839	61.47	8.81
71	43,346	2,891	66.70	8.35
72	40,455	2,926	72.33	7.91
73	37,529	2,942	78.39	7.49
74	34,587	2,937	84.92	7.08
75	31,650	2,910	91.94	6.69
76	28,740	2,860	99.51	6.32
77	25,880	2,786	107.65	5.96
78	23,094	2,686	116.31	5.62

Age	Number Living	Deaths Each Year	Death Rate per 1,000	Expectation of Life
79	20,408	2,565	125.69	5.30
80	17,843	2,422	135.74	4.99
81	15,421	2,258	146 42	4.69
82	13,163	2,078	157.87	4.41
83	11,085	1,885	170.05	4.14
84	9,200	1,685	183.15	3.89
85	7,515	1,481	197.07	3.65
86	6,034	1,278	211.80	3.42
87	4,756	1,081	227.29	3.21
88	3,675	897	244.08	3.00
89	2,778	727	261.70	2.81
90	2,051	575	280.35	2.63
91	1,476	442	299.46	2.46
92	1,034	332	321.08	2.30
93	702	240	341.88	2.15
94	462	168	363.64	2.01
95	294	114	387.76	1.87
96	180	74	411.11	1.74
97	106	47	443.40	1 61
98	59	27	457.63	1.50
99	32	16	500.00	1.34
100	16	9	562.50	1.19
101	7	4	571.43	1.07
102	3	2	666.67	.83
103	1	1	1,000.00	.50

The Expectation of Life is the average number of years which a large number of persons of any given age have yet to live; that is, the sum of the years which all will live divided by the number of persons.

See Combined Experience Table; Commissioners' Standard Ordinary Mortality Table; National Fraternal Congress Table.

Amortization. In a special sense, this word means to extinguish a debt through a sinking fund. Strictly speaking, the term "amortization" applies only to bonds purchased at a premium, that is, above par value, but the concept is also used in reference to bonds bought below par. The correct name for the method of valuation of bonds bought below par is "accrual of discount." In either case, amortization or accrual, the value of the bond is adjusted by successive stages, reduced in amortization and increased by accrual, until the bond equals the par value on the maturity date. For extended discussion and examples of the method of amortization and accrual of discount, see Moore, *Handbook of Financial Mathematics.*

Rules on amortization or valuation of bonds are generally stated in the State Insurance Laws. Amortization of bonds is a problem that arises in connection with insurance company annual statements. The Insurance Laws of Ohio explain the amortization of bonds as follows:

All bonds or other evidences of debt having a fixed term and rate held by any insurance company, assessment life association or fraternal benefit society authorized to do business in this state, may, if amply secured and not in default as to principal and interest, be valued as follows: If purchased at par, at the par value; if purchased above or below par, on the basis of the purchase price adjusted so as to bring the value to par at maturity and so as to yield in the meantime the effective rate of interest at which the purchase was made; provided that the purchase price shall in no case be taken at a higher figure than the actual market value at the time of purchase; and, provided further, that the superintendent of insurance shall have full discretion in determining the method of calculating values according to the foregoing rules. (110 v. 260. Eff. July 17, 1923)

See Accrual of discount; Annual statement.

Amount at risk. In any policy year, the amount at risk in a life insurance policy is the difference between the sum insured in any policy year and the terminal reserve for such policy year. To put the same thought in another way, the "amount at risk" is the difference between the face amount of the policy and the reserve held on the contract at the end of the policy year. To illustrate this point, assume that the four per cent terminal reserve in the first year of a whole life policy of $1,000 issued at age 30 is $13.54; then the amount at risk the first year will be $986.46, or $1,000 minus $13.54. This $986.46 is the real amount for which the company is liable, over and above the savings of $13.54 credited to the policyholder, in event of death.

The amount at risk is also the "mortality fund" for each expected death claim. The terminal reserve for each insured is the "investment fund" or, technically speaking, the reserve fund. The amount at risk (mortality fund) may be found for any insured under any type of policy, for any year, by deducting the reserve fund from the face amount of the policy.

Amount of one dollar. Life insurance companies usually print two different tables on the "amount of one dollar" in their agent's rate manuals. One table shows the amount to which one dollar principal will increase at compound interest in a given number of years. The following is a portion of such a table:

The sum to which one dollar principal will increase

Yrs.	2%	2½%	3%	3½%	4%	5%	6%
1	1.020	1.025	1.030	1.035	1.040	1.050	1.060
2	1.040	1.051	1.061	1.071	1.082	1.103	1.124
3	1.061	1.077	1.093	1.109	1.125	1.158	1.191
4	1.082	1.104	1.126	1.148	1.170	1.216	1.263
5	1.104	1.131	1.159	1.188	1.217	1.276	1.338
6	1.126	1.160	1.194	1.229	1.265	1.340	1.419
7	1.149	1.189	1.230	1.272	1.316	1.407	1.504
8	1.172	1.218	1.267	1.317	1.369	1.478	1.594
9	1.195	1.249	1.305	1.363	1.423	1.551	1.690
10	1.219	1.280	1.344	1.411	1.480	1.629	1.791

To find the sum to which a given amount will increase at compound interest at any of the rates per cent and number of years expressed in this table, multiply the given amount by the sum to which one dollar will increase at the rate and for the number of years required, marking off as many decimals in the product as there are decimals in the multiplier and multiplicand.

The other table, a portion of which is shown below, gives the amount to which one dollar per annum, paid at the beginning of each year, will increase at compound interest, for a period of years.

The sum to which one dollar per annum, paid at the beginning of each year, will increase,

Yrs.	2%	2½%	3%	3½%	4%	5%	6%
1	1.020	1.025	1.030	1.035	1.040	1.050	1.060
2	2.060	2.076	2.091	2.106	2.122	2.153	2.184
3	3.122	3.153	3.184	3.215	3.247	3.310	3.375
4	4.204	4.256	4.309	4.363	4.416	4.526	4.637
5	5.308	5.388	5.468	5.550	5.633	5.802	5.975
6	6.434	6.547	6.663	6.779	6.898	7.142	7.394
7	7.583	7.736	7.892	8.052	8.214	8.549	8.898
8	8.755	8 955	9.159	9.639	9.583	10.027	10.491
9	9.950	10.203	10.464	10.731	11.006	11.578	12.181
10	11.169	11.483	11.808	12.142	12.486	13.207	13.972

To find the sum to which a given amount per annum will increase at compound interest at any of the rates per cent and number of years expressed in the above table, multiply the given amount per annum by the sum to which one dollar per annum will increase at the rate and for the number of years required, marking off as many decimals in the product as there are decimals in the multiplier and multiplicand. *See* Compound discount.

Amount of (policy) insurance. The maximum limit of the insurance provided in a policy constitutes the amount of the policy. A life insurance policy may provide for the payment of $10,000 in event of the maturity of the policy either as an endowment or upon the death of the policyholder. An accident insurance policy, for example, may provide as the "amount of the policy": (1) $2,000 principal sum to be paid in event of death or loss of limb and sight, and (2) $12.50 weekly indemnity for 52 weeks in event of total disability for other injuries. Such payments are often called the *face amount of the policy* or the *amount of the policy.*

Minimum and maximum amounts of life insurance are determined by a number of factors such as age of insured, occupation, type of policy sold, or substandard ratings. Juvenile insurance policies are usually written on a "graded amount of insurance" from the age at issue; the ultimate amount of insurance is generally reached on the anniversary of

the policy on which the insurance age of the child is five years. *See* Graded death benefits.

Annual dividend. The annual dividend in life insurance is sometimes referred to in two different ways. In the first place, the annual or yearly dividend is often the sum of money paid to or credited in some way to the policyholder, which arises out of his policy relation with the company. This dividend is often made up of the following: (1) excess premium charged at the beginning of the year; (2) interest earnings on investment; and (3) savings in mortality. When paid to the policyholder at the end of the year, it is often called a "refund" and not a dividend. In stock company life insurance practices, the term "dividend" commonly refers to the amount declared by the directors to be paid to the stockholders as so much per share.

In most states the insurance laws require companies issuing participating policies to declare and pay yearly dividends. *See* Deferred dividend.

Annual investment table. Many life insurance companies print in their rate books a table that shows the amount that must be invested at the beginning of each year in order to accumulate $1,000 in a given period of time. The annual investment required to accumulate $1,000, at varying rates of interest, from one to forty years, is shown in the following table:

No. of Yrs.	3%	3½%	4%	4½%	5%	6%
1	$970.87	$966.18	$961.54	$956.94	$952.38	$943.40
2	478.26	474.78	471.34	467.94	464.58	457.96
3	314.11	311.05	308.03	305.05	302.10	296.33
4	232.07	229.23	226.43	223.68	220.96	215.65
5	182.87	180.17	177.53	174.92	172.36	167.36
6	150.09	147.51	144.96	142.47	140.02	135.25
7	126.71	124.20	121.74	119.33	116.97	112.39
8	109.18	106.74	104.35	102.02	99.74	95.32
9	95.57	93.18	90.86	88.59	86.37	82.10
10	84.69	82.36	80.09	77.87	75.72	71.57
11	75.80	73.52	71.30	69.14	67.04	63.01
12	68.41	66.17	63.99	61.88	59.83	55.92
13	62.17	59.96	57.83	55.77	53.77	49.96
14	56.82	54.66	52.57	50.55	48.59	44.89
15	52.20	50.07	48.02	46.04	44.14	40.53
16	48.16	46.07	44.06	42.12	40.26	36.75
17	44.61	42.55	40.58	38.68	36.86	33.44
18	41.46	39.44	37.49	35.63	33.85	30.53
19	38.65	36.66	34 75	32.93	31.19	27.94
20	36.13	34.17	32.29	30.50	28.80	25.65
21	33.86	31.92	30.08	28.33	26.66	23.59
22	31.79	29.89	28.08	26.36	24.73	21.74
23	29.92	28.04	26.26	24.58	22.99	20.07
24	28.20	26.35	24.60	22.95	21.40	18.57
25	26.63	24.81	23.09	21.47	19.95	17.20
26	25.18	23.39	21.70	20.12	18.63	15.95
27	23.85	22.08	20.42	18.87	17.42	14.81
28	22.61	20.87	19.24	17.72	16.31	13.77
29	21.47	19.75	18.15	16.66	15.28	12.81
30	20.41	18.72	17.14	15.69	14.33	11.93
31	19.42	17.75	16.21	14.78	13.46	11.12
32	18.49	16 85	15.34	13.94	12.65	10.38
33	17.63	16.01	14.52	13.15	11.90	9.69
34	16.82	15.23	13 76	12.42	11.20	9.06
35	16.06	14.49	13.06	11.74	10.54	8.47
36	15.34	13.80	12.39	11.11	9.94	7.92
37	14.67	13.15	11.77	10.51	9.37	7.41
38	14 04	12.54	11.18	9.95	8 84	6.94
39	13.44	11.97	10.64	9.43	8.35	6.50
40	12.88	11.43	10.12	8.94	7.88	6.10

Annual level premium. *See* Level premium.

Annual premium. An annual premium is the monetary consideration required by the insurer for providing the insurance for one year. An annual premium may be subject to a minimum premium requirement.

Policies issued by ordinary life insurance companies are generally on the basis of equal annual payments. Most companies, however, will permit policyholders to pay premiums on a semiannual, quarterly, or monthly basis. In such situations the shorter premium interval payments are slightly higher than on the yearly basis. *See* Premium payments; Premium basis; Quarterly premium.

Annual premium deferred life annuity. *See* Deferred annuities.

Annual premium deferred refund annuity. *See* Deferred annuities.

Annual statement. An annual statement is required to be filed, on a prescribed "convention blank" form, with the state insurance official by life insurance companies. The information given on this uniform blank drawn up by the National Convention of Insurance Commissioners is intended chiefly for the state insurance departments and only incidentally, if at all, for the policyholders. Life insurance companies furnish annual statements to their policyholders that are not so lengthy or so complicated as the prescribed convention blank.

Quite long stipulations are provided in the insurance laws of most states relative to the facts and information that must be given in the annual statement. For example, the Ohio Insurance Laws require replies to fifteen items on the property or assets held by a company; responses to eight items on company liabilities; answers to four items on income and six items on expenditures. Briefly stated, the convention blank covers no less than six main facts and information:

1. The financial statement, which covers capital stock, income, disbursements, assets, and liabilities.
2. The life insurance exhibit, which calls for data on policies issued, in force, and terminations.
3. The annuity exhibit, which includes supplementary contracts of life contingencies.
4. The gain and loss exhibit, the purpose of which is to show the increases and decreases in the surplus.
5. The general interrogatories, which embody inquiries on valuation methods, types of policies, surrender values, and so forth.
6. The schedules, which cover real estate, mortgage loans, collateral loans, bonds and stocks, bank balance, death claims, salaries, commissions, legal expenses, legislative matters, reinsurance, and so forth.

In addition to filing an annual statement, life insurance companies are also subject to periodical examinations. Indeed, perhaps no large business in America is subject to such careful investigation, supervision, and regulation as is the insurance business. For a more detailed and somewhat critical review of the annual statement and its requirements see McLean, *Life Insurance,* Sixth edition, Chapter XIII. *See* State supervision.

Annuitant. The person or concern to whom a periodical payment of money is paid under a contract of annuity is called the *annuitant.* *See* Annuity.

Annuities classified. Briefly, annuities may be classified from several angles, such as the method of creation; the term of duration; the payment of income, including the payment interval, the commencement of the payment, whether the annuity is apportionable to date of death, and the relative size of the payments; the method of purchasing; and the object. Although the following classification does not exhaust the forms or possible combinations of annuities, it will give an over-all summary of the highlights.

CLASSIFICATION OF ANNUITIES

- I. Method of creation
  - *A.* By will
  - *B.* By legislation
  - *C.* By contract
    - —*Annuity policy*
- II. Term or duration of contract
  - *A.* Not contingent upon duration of life
    - 1. For unlimited period
      - —*Annuity in perpetuity*
    - 2. For definite number of years
      - —*Annuity certain*
  - *B.* Involving duration of life
    - —*Contingent annuity*
    - 1. Contingent upon survival of entire life involved after annuity is issued
      - —*Whole life annuity*

a. With no return of purchase price and for the continuance of one life
— *Single life annuity*
b. With specified minimum return guarantee to annuitant and beneficiary combined in case of premature death of annuitant
(1) Of at least not less than the purchase price
(*a*) By continuing any balance of the regular annuity payments
— *Refund life annuity*
(*b*) By cash payment of any such balance remaining with insurer
— *Cash refund life annuity*
(2) Of annuity payments for definite number of years
— *Life annuity with ten years certain*
2. Contingent upon the duration of two or more lives jointly and thereafter fully to the last survivor for life, ceasing with the last death
— *Joint life and survivorship annuity*
3. Contingent upon survival of all the lives involved with payments ending upon the first death among the lives involved
— *Joint life annuity*
4. Beginning of annuity contingent upon failure of specified life with payment to continue during existence of another life
— *Survivorship or reversionary annuity*
5. Contingent upon the survival of the life involved but not for the entire complement of life at the particular age
— *Intercepted annuity*
a. Payable for first part of remaining life for definite number of years only
— *Temporary life annuity*
b. Payable for specified middle portion of remaining lifetime for definite number of years
— *Deferred temporary annuity*
c. Payable for last part of remaining life after specified number of years for indefinite period
— *Deferred life annuity*
III. Payment of annuity income
A. Interval of payments to annuitant
1. Yearly
— *Annuity, Annual form*
2. Every six months
— *Semiannual annuity*
3. Every four months
— *Quarterly annuity*
4. Every month
— *Monthly annuity*
B. Commencement of payments
1. With reference to annuity interval of payment
a. Payment at beginning of first annuity interval
— *Annuity-due*
b. Payment at end of first annuity frequency period
— *Annuity-immediate or ordinary annuity*
2. With reference to a certain time, date of contract or present age of annuitant
a. Payment beginning at present age of annuitant
— *Ordinary immediate annuity*
b. Payment beginning after present age of annuitant
(1) After specified years if annuitant is living
— *Deferred life annuity*
(2) After optional delay if annuitant is alive
— *Retirement annuity*
(3) After specified number of years if either of annuitants survive
— *Deferred joint life and survivorship annuity*
(4) After some event, such as death of insured, if the beneficiary is living
— *Survivorship annuity*
(5) After specified number of years after the death of the insured, if the beneficiary is living
— *Deferred survivorship annuity*
(6) After specified years if annuitant is living but for a limited number of years or prior death of annuitant
— *Deferred temporary life annuity*
C. Whether annuity payment is apportionable to date of death of annuitant
1. Pro rata fractional payment to date of death of annuitant to estate
— *Complete annuity*
2. No proportional payment to date of death of annuitant to estate, the most frequent form
— *Curtate annuity*
D. Relative size of annuity income payments
1. Equal payments, common form
— *Immediate and deferred life annuities*

2. Increasing payments
   —*Increasing annuity*
3. Decreasing payments
   —*Decreasing annuity*

IV. Method of purchasing life annuities
- *A.* By lump sum payment in advance
  —*Single premium annuities*
  1. All immediate annuities
     - *a.* Without refund provision
       —*Immediate life annuity*
     - *b.* With refund of balance of purchase price
       —*Refund life annuity*
     - *c.* Annuity on two lives continuing to the last survivor
       —*Joint life and survivorship annuity*
  2. Some deferred annuities
     - *a.* Without refund provision
       —*Single premium deferred life annuity*
     - *b.* With refund of balance of purchase price
       —*Single premium deferred refund annuity*
     - *c.* With refund options
       —*Single premium retirement annuity*
- *B.* By installment premiums (annually, semiannually, quarterly, or monthly)
  —*Annual premium deferred annuities*
  1. During definite period of years without refund provision
     —*Annual premium deferred annuity*
  2. During definite period of years subject to minimum return of purchase price
     —*Annual premium deferred refund annuity*
  3. During optional period of years with optional refund provisions
     —*Annual premium retirement annuity*
  4. During indefinite period dependent upon the continuance of one life
     —*Survivorship annuity*

V. Object of life annuities
- *A.* To provide maximum life annuity for purchaser exclusively
  1. Wishing to retire and receive income at the present age, such as if over 50 years of age
     —*Ordinary immediate life annuity*
  2. If young or middle-aged, wishing to retire at certain future date and receive life income
     —*Deferred life annuity*
  3. If young or middle-aged, wanting to retire at optional future date
     —*Retirement annuity*
  4. Wishing to receive income for certain number of years only, provided annuitant survives
     —*Temporary life annuity*
- *B.* To provide a smaller income for the purchaser but in case of his premature death to return any balance of the purchase price to the estate
  —*Refund life annuity*
  1. If ready to retire at present age
     —*Immediate refund life annuity*
  2. If wishing to retire at certain future date and receive future life income
     —*Deferred refund life annuity*
  3. For certain number of years only, provided purchaser survives
     —*Temporary refund life annuity*
- *C.* To provide life income to purchaser and another annuitant jointly with income continuing in full to survivor
  1. If ready to retire at present age
     —*Joint life and survivorship annuity*
  2. If desirous of receiving joint life and survivorship income at certain future date
     —*Deferred joint life and survivorship annuity*
  3. If income is for certain number of years only, provided one of annuitants survives
     —*Temporary joint life and survivorship annuity*
- *D.* To provide income for others exclusively
  1. For one individual
     - *a.* Involving purchaser's life to provide an annuity for another
       - (1) For entire life of other party after death of purchaser
         —*Survivorship annuity*
       - (2) To begin at certain time after death of purchaser
         —*Deferred survivorship annuity*
     - *b.* As a gift to a relative (a parent, child, grandchild, etc.), friend, employee, or servant of annuity involving duration of their life
       - (1) Providing immediate income for remainder of life
         —*Life annuity*
       - (2) Providing income for later years
         —*Deferred life annuity*
       - (3) Providing income for limited number of years
         —*Temporary life annuity*
     - *c.* In lieu of a bequest
       —*Life annuity*
  2. For more than one person, such as gift of life income to two persons

with full amount continuing to survivor, as in the case of parents, unmarried or widowed sisters, and worthy old couple
— *Joint and last survivor annuity*

3. For a group of persons
— *Group annuity*

Annuities in perpetuity. If the annuities are payable for an unlimited period, continuing to beneficiaries and heirs or specified successors forever without time limit, they are called *perpetuities* or *annuities in perpetuity*. In order to make an annuity perpetual the general rule is that there must be *express* words to such effect or such *intention* must clearly appear in the contract. The annual allowances in the case of perpetual annuities represent interest, in contrast to the annual payments under ordinary life annuities which come from principal and interest. Such perpetual annuities are less common than life annuities. *See* Temporary annuity; Immediate annuities; Deferred annuities.

Annuity. Strictly speaking, the word *annuity* refers to an annual allowance or income. It may be defined in general as a "periodical payment to continue during a given status." As defined by Coke, "An annuity is a yearly payment of a certain sum of money granted to another in fee, for life or years, charging the person of the group only." An annuity is a certain payment made to an individual at stated intervals (which may be even for periods less than a year) either for life or for a certain number of years. Or it may be said that a contract under the terms of which a company agrees to pay a sum of money at stipulated intervals for each specified period that one or more individuals survive is called an annuity. In the case of *Poe v. Raleigh and A. Line Co.* (141 N. C. 525), the court said that an annuity is not income. Whereas life insurance payments are usually made upon the death of the policyholder, annuity payments are generally conditioned upon the living of the person. It was held by the Court of Appeals of New York that contracts for annuities are not contracts of life insurance *(People v. Security Life Insurance and Annuity Co.,* 78 N. Y. 114, 34 Am. Rep. 522 7 Abb. N. C. 198).

Annuities may be paid either annually, semiannually, quarterly, or monthly, or at other fixed intervals and can be purchased in one single payment or lump sum enough to cover the cost. A common practice is to apply the proceeds of a matured endowment life policy to the purchase of an annuity. In our ordinary commercial life, the idea of the annuity is illustrated in such payments as wages, salaries, pensions, and building and loan associations.

There are many varieties of annuities sold in this country, but all forms are either contingent or certain. Each kind is for the purpose of meeting the needs of the purchaser and is either a perpetuity or terminable.

In recent years the premium rates for annuities have increased because of the declining rate of interest and the increasing longevity of annuitants. Some companies have discontinued the issuance of single premium deferred annuities to individuals, but will sell them for pension trust purposes. For a more detailed discussion of annuities, see Crobaugh, *Annuities and Their Uses. See* Standard Annuity Table; Immediate annuities; Deferred annuities; Annuity defined.

Annuity benefits. Some life insurance companies include a provision of this name in their policies. Under the terms of this annuity benefit agreement if the policy is kept in force by the payment of premiums in cash, the

company guarantees to pay a guaranteed annuity, according to a schedule attached to the policy, at each anniversary of the policy shown on such benefits, if the premium for the succeeding policy year is fully paid. In lieu of these annuity benefit payments the company will accept such annuity benefits in reduction of the annual premiums as they become due on the dates indicated on the annuity benefits.

These annuity benefits may be left with the company to purchase paid-up additional insurance. Or, if the purchaser of the policy desires, the annuity benefits may be allowed to accumulate with the company at a fixed rate of compound interest. In event of the death of the policyholder, the accumulated annuity benefits left with the company will be paid with interest accumulations to the beneficiary in addition to the sum insured. On annuity benefits left to accumulate at interest, other options are made available to the policyholder, such as paid-up policies, paid-up policies and cash, maturing the policy as an endowment. *See* Dividend options; Dividends left to accumulate; Dividend payments.

Annuity certain. Where a series of fixed payments are to be continued at regular periodic intervals only for a definite number of years, irrespective of any life contingency, the annuity is known as an *annuity certain.* For example, such an annuity implies a promise to pay a certain sum, such as $100, each year without condition for a fixed period, such as for 10, 15, or 20 years, with a definite date for each payment including the first and the last.

Annuities certain may be classified on the basis of the commencement of the annuity in relation to the annuity interval and the time the annuity is "entered upon." The payment under an annuity certain may be at the end of the payment interval or at the beginning of each interval. The first payment may not be payable for several years after the contract is issued. *See* Immediate annuities; Deferred annuities; Annuities classified.

Annuity certain and continuous. If an annuitant purchases a contract that guarantees to pay a sum of money for a certain number of years, regardless of whether he survives or not, but in the event of his survival to pay an annuity throughout his lifetime, the contract is for an annuity certain and continuous. *See* Optional modes of settlement; Deferred annuities.

Annuity complete. In actual practice, a period of time usually exists between the death of an annuitant and the time of the receipt of the last payment. For this interval of time a share of the regular payment is due and when so paid is called an *annuity complete.* *See* Complete annuity.

Annuity contingent. Some writers have divided annuities into those that are certain and those that are contingent. With the exception of the so-called annuity certain, all annuities are "contingent" on something. Hence, the term "contingent" annuity is a misnomer, and practically every form of a so-called contingent annuity is treated under a specific reference. *See* Contingent annuity.

Annuity deferred. *See* Deferred annuities.

Annuity defined. Briefly defined, an *annuity* represents a series of certain payments, generally equal in amount, made at uniform recurring intervals of time to a named person or persons during the continuance of a specified condition or status. In a strict sense, the word *annuity* infers that the interval of payment is one year, but by gradual usage its meaning has been extended to include other exact re-

curring intervals of time, such as six months, three months, or one month. The stipulated relation or status during which the annuity is payable may be an unlimited period, a limited term of years, or an indefinite or a definite period each dependent upon some contingency, such as the duration of a single life or two or more lives. Regardless of the payment interval, however, the total sum payable in one year is frequently used to indicate the size of the annuity. This entire sum payable in one year to the annuitant is sometimes referred to as the *annual rent*. According to general usage, the word *annuitant* refers to the person to whom the payments under an annuity are to be made or the person during whose life the payment is to be continued.

There is a difference, strictly speaking, between an annuity and a periodic income. An annuity, as previously stated, represents a definite sum guaranteed to be paid, but an income is made up of net profits after deducting all necessary expenses and charges, and, therefore, may be indefinite in amount. An annuity does not vary by reason of profit or income. A simple gift of the interest upon a certain principal sum, even though it is to be paid annually, is a gift of income (profit to be earned) rather than an annuity in the true sense.

In a legal manner, an annuity is a contract by which the insurer in consideration of a stipulated payment (either in a lump sum or in a certain number of fixed installments) agrees to pay to the annuitant or annuitants beginning at a stipulated time (either at the present or specified future date or contingency) a definite amount payable periodically as arranged. It may be payable during the remaining lifetime of the annuitant, during a certain number of years dependent upon the survival of the annuitant, or according to some combination of these forms coupled possibly with some variety of the many available refund provisions.

Such a contract, of course, between two individuals would amount to a wager contract and would not be a legitimate enterprise. It is not possible to determine how long a particular individual may live, but in a large group it is possible to calculate very accurately the number that will be living at various future dates. When the annuity agreement, therefore, is between an individual and a company issuing such contracts to thousands of annuitants, the law of average will function just as in life insurance and make it possible for the grantor of the annuities to conduct the business on scientific calculations.

It may be said that the annuity idea is practically the reciprocal of the life insurance principle. A man purchases life insurance because of the fear of dying before he has accumulated enough to take care of his dependents; he purchases an annuity, however, because of his fear of outliving his income. Ordinary life insurance creates an estate for future delivery to the insured or to the beneficiary in case of the death of the insured, but conversely the regular life annuity by providing a life income to the annuitant liquidates the principal upon the death of the annuitant. An annuity contemplates the surrender of a definite sum of money to guarantee a series of periodic payments of a certain amount during the life of the annuitant or for a certain period. Ordinary life insurance, on the other hand, is conditioned upon a series of periodic payments by the insured to secure for his beneficiary a definite sum of money upon the insured's death.

The consideration for an ordinary whole life policy of life insurance, being a yearly sum payable by the insured during his life, is in the nature of a life annuity which the insured is required to pay the company for his life insurance. In consideration of this yearly premium, amounting to a life annuity, the company agrees to pay the sum agreed upon at the death of the insured.

It may be pointed out that if, in consideration of a series of payments running through a number of years, the company agrees to pay at a fixed time a certain sum of money, the payment is in the nature of an endowment. If, however, the definite sum is payable in fixed installments at definite dates or intervals, the contract is in the nature of an annuity. There has been considerable legal controversy as to whether an annuity contract constitutes life insurance and whether an annuity is subject to the rules governing life insurance. In present-day practice annuities, as well as life insurance, come under the control and supervision of state insurance departments.

Annuity-due. If the first payment (and each successive payment) to an annuitant is made in advance, that is, at the beginning of the first frequency period (and each successive interval), it is called an *annuity-due.* A life annuity, therefore, is an annuity-due when the income is payable right away to the annuitant at the beginning of the first payment interval and each successive interval that the annuitant survives to enter upon. Except in the case of a deferred annuity the first amount is payable under such a contract to the annuitant at once as soon as the contract is issued, and the last payment to the annuitant is made at the beginning of the payment interval in which death occurs.

For example, under a life annuity-due issued January 1, 1946, if the annuity is payable: (a) each year, the first annual payment is due at once and the next annual payment becomes due January 1, 1947 if the annuitant is then alive; (b) every six months, the first semiannual payment is due at once and the second is due July 1, 1946, if the annuitant is living; (c) every three months, the first quarterly payment is due at once and the second, April 1, 1946 if the annuitant is living; or (d) every month, the first monthly payment is due at once and the second, February 1, 1946.

These annuities, of course, may be of various kinds, such as annuities-certain-due, whole life annuities-due, temporary annuities-due, or deferred annuities-due. Any series of payments, each of which is to be made at the inception of a contract, or right away, is also an annuity-due. Life insurance premiums and payments under installment sales contracts are examples of annuities-due. *See* Payment of annuity income.

Annuity idea. Certain salient ideas appear to stand out as the result of any review of the development and growth of annuities. Some of these significant concepts may be summarized briefly as follows:

1. The annuity idea is very old in its origin and is older than the life insurance principle.
2. Church and governmental units used the annuity idea long before private commercial annuity enterprises became important.
3. Early annuity practices were based upon arbitrary and conjectural practices and assumptions.
4. A scientific basis for annuities depended upon the development of the theory of probabilities and life contingencies.

5. Great progress was made in the modern annuity principle when vital statistics were available from which tables of mortality were developed.
6. Few commercial annuity and insurance companies for the sale of life annuities were formed before the middle of the eighteenth century, and the practice of selling annuities in the United States developed about that time.
7. Statistics appear to show that female annuitants on the average live longer than male annuitants and that annuitants as a class are unusually long-lived. Investigations have revealed the tendency toward self-selection on the part of annuitants; that is, only persons believing themselves to be in good health purchase annuities.
8. The actual experience of the mortality of annuitants, which has been studied from time to time, has been of great value in establishing a more scientific basis for the annuity business.
9. Each successive investigation of the actual mortality of annuitants has generally indicated continued improvement in human vitality which has frequently necessitated the readjustment of rates. Furthermore, this progressive improvement in the length of life will in turn very probably cause annuity rates to be higher in the future if interest rates keep permanently at a low level.
10. Once the annuity idea had passed the experimental stage, it was not long before the insurance and annuity companies were utilizing in their annuity business the principles revealed by the successive mortality investigations of annuitants. In due time, therefore, a great variety of annuity contracts with attractive and novel features appeared, the private commercial companies having endeavored to meet the varying needs of annuitants. Group annuities represent a somewhat later development than single, joint, or joint and survivor annuities. The annuity idea came into prominence in America after the great business depression of the thirties. *See* Immediate annuities; Deferred annuities.

Annuity immediate. *See* Immediate annuities.

Annuity merits. Among the various advantages of annuities to the purchasers, particular attention is directed to such factors as the safety of the life insurance companies issuing annuities, permanent and unvarying life income, high yield on amount invested, freedom from investment and management cares, diversification on small capital, adaptability to financial circumstances of annuitants, convenience and ease of collections, absence of medical examination, factors conducive to longevity, and retirement annuities as a stimulus to thrift.

From the standpoint of the purchaser, one of the foremost advantages of an annuity is the safety. Annuity contracts can be relied upon with certainty, for they are issued by life insurance companies that stand pre-eminent among investment concerns for security. From the standpoint of safety, investment in an annuity is comparable only with investment in United States Government bonds. Legal reserve life insurance companies are not affected by adverse conditions to the same extent that ordinary investment concerns or the individual investors are. The well-established and conservative legal reserve life insurance companies have not been dangerously impaired by depression or war. Important

reasons why life insurance companies are so depression-proof and some of the significant factors making for the soundness of life companies writing annuities may be briefly considered.

In the first place, life insurance companies are subject to strict and careful supervision by the states. When a person buys an annuity, this money along with the money from other annuity purchasers is invested by the life insurance company only in classes of securities prescribed by the state laws, such as government, state, county, and municipal bonds, first mortgage public utility bonds and first mortgage industrial bonds, and very carefully chosen mortgages on farm and city real estate. Speculative bonds and stocks are not found in the portfolio of the conservative life insurance company, and there are almost no foreign investments other than Canadian. As required by law, a statement of the condition and of the investments of the life insurance company is sent each year to the state officials in each state in which the company operates.

In the second place, the life insurance companies employ highly trained investment specialists who carefully select the cream of the permitted investments from the standpoint of income rather than speculation. There is strict adherence to the conservative rule of the first-lien principle. The life insurance companies have excellent and judicious management of their investment portfolios. Not only are the securities carefully selected in the beginning from among those allowed by law but also they are carefully noted and substitutions are made in the portfolio whenever desirable. Investments of life insurance companies have perpetual and expert institutional and fiduciary care.

In many cases the great purchasing power of the life insurance companies makes it possible for them to secure favorable purchases not available to the small investor. The huge assets of the life insurance companies are back of their contracts. The assets of life insurance companies, approximating $35,000,000,000, are diversified adequately in safe proportions of different, well-balanced types of investments. The purchase of an annuity, in reality, gives the annuitant a spread of his small capital over the many investments of the large life insurance company, sometimes to the extent that only a few cents are placed in any particular investment. Different individual investments are being made from time to time by the life insurance companies. As these many purchases are made at various intervals, there is an unusually steady current income from maturing obligations. This great diversification in number of investments, time of purchase, and different kind of investments is an important factor in maintaining the stability of life insurance companies. In addition, there is a favorable territorial diversification which frees the investments of life insurance companies from serious loss through local hazards.

The investment yield of life insurance companies has been comparatively steady. The current income from maturing obligations, investments, and premiums of a conservative life insurance company is well in excess of the disbursements each year. Furthermore, of course, the writing of annuities by life insurance companies is conducted on an actuarially sound and conservative basis both in respect to the assumed mortality and interest rate on investments. Life insurance companies have stood the test of time and experience.

The life annuity is most valuable to the annuitant because it is a permanent and inviolable contract for lifelong income. After the contract is issued, provided the consideration is paid, it cannot be changed or revoked by the life insurance company. The retirement income provided by a life annuity is fixed and definite, not just for a short period but for the duration of the annuitant's life regardless of how many years this may be. The annuity contract specifically states the amount of the guaranteed income. Its stable income is not subject to variation or fluctuation in value according to current prices. The annuity income is a regular and dependable thing in this world of many uncertainties. The return from ordinary investments, in contrast, is not stable, guaranteed, or permanent. Dividends may fluctuate; bonds may depreciate or go in default; real estate values may decline; rents may be reduced; and stocks may shrink in value, and their yield may vanish.

Even if the annuity policy is lost by theft, fire, flood, or misplacement, the annuity income is safe from such hazards to which much property is subject. A life annuity provides the surest guarantee of financial independence in old age. There is no better method of anticipating the necessities and luxuries of retirement than by the purchase of a suitable annuity.

A life annuity is of paramount importance to many annuitants because of its unusually high, guaranteed yield for life. This maximum income, particularly at the older ages, is one of the most attractive features of an annuity and one which distinguishes it from all other investments. For example, for a man aged 65, conservatively speaking, a life annuity will about double the income obtainable from investments yielding five per cent interest.

The life annuity is scientifically arranged to yield a maximum income for the life of the annuitant—an unknown length of time. Such high guaranteed yield is possible not through unusually high investment income of the life insurance companies but only through exact mathematical calculations of annuitant longevity and interest coupled with the principle that the annuity purchase price is to be consumed during the life of the annuitant. The large return from such annuities, therefore, actually consists of a part of the original capital, with interest, scientifically arranged so that the yield exhausts the entire purchase price during the life of the annuitants. On any one contract the company may lose or gain, but by large-scale operation such contracts may be issued with accuracy. By the life annuity, therefore, the annuitant is able to spend a certain part of the capital, as well as the interest, without ever reducing the return during his lifetime.

Another important advantage of an annuity which particularly appeals to the purchaser is the absolute freedom from investment and reinvestment cares. It is extremely difficult for an individual investor to determine the best securities. Then, bonds mature and there is the reinvestment problem that has to be met—frequently when the changing investment conditions are unfavorable. The investor holding securities that are called for redemption may be obliged to reinvest the money at a time when it may be impossible to obtain as much as five per cent return with the necessary degree of safety. This reinvestment problem sometimes becomes more difficult and dangerous with the increasing age of the investor. Not only must investments

be carefully selected but they also must be watched and changed as conditions warrant. All investment authorities agree that it is not possible to purchase securities that are apparently safe at the time of purchase and expect them to remain just as safe for a long period without supervision. Complex events and changes are constantly influencing investments, and these influences cannot be accurately foreseen for any great period in advance. An investor must be constantly on the alert for the development of trends that may weaken his holdings. Not many individual investors have the training, experience, or time to carry out such a vigilant supervision of their investments. Furthermore, the funds invested in an annuity are beyond danger of temptation provided by speculative ventures and get-rich-quick schemes, which frequently have disappointing endings. In sum, the annuity plan furnishes the annuitant the benefit of group investigation and group buying of securities.

The necessity of the principle of diversification of investments is generally recognized. Even the individual investor who has a large amount of capital encounters difficulties in securing proper diversification, and the individual investor who has only a comparatively small amount of money is at a great disadvantage in this respect in ordinary investments. Many people, recognizing that the insurance companies have investment specialists, would no doubt like to have these trained men select some safe and properly diversified investments for them. Frequently they fail to see that by the purchase of annuities even with a small amount of capital they secure a cross section of all the investments of the life insurance company. For example, one life insurance company in explaining its diversification of assets emphasizes the fact that each $1,000 invested in an annuity has the widest possible diversification, with not more than 11 cents in any one investment. Under an annuity the individual investor secures the greatest degree of diversification that is possible, considering lines of business, geographical locations, and dates of purchases and maturities.

Annuities may be purchased in very convenient denominations. A large or a comparatively small sum, such as $1,000 or $500, may be invested all at one time and repeated purchases may be made from time to time. In the case of deferred and retirement annuities the purchase price may be paid all at one time or in installment payments, as small as $100 monthly in some cases, over a period of time convenient to the purchaser's circumstances, ranging from a short time to many years.

The income is arranged so that the purchaser receives it regularly (either monthly, quarterly, semiannually, or yearly); hence it may be depended upon. This security is almost impossible to obtain from other investments and property.

The retirement annuities contain various other features that are adaptable to the needs of the annuitant even after the contract is issued, such as maturity date and the type of annuity payments.

The collateral or borrowing power of annuities is an important feature to consider, especially to persons with a comparatively small amount of capital.

If the annuity policies contain cash surrender values, after the first two or three contract years these values are worth 100 cents on the dollar and they are not subject to market fluctuations in value. In the case of other property, such as stocks, if

liquidation is forced during a depression, the value of the investment is diminished, but the guaranteed values of annuities do not depreciate. Where annuities contain cash values, such values amount to reserve funds that may be utilized in the case of serious financial emergencies.

Payments under annuities are made promptly without delay whether times are prosperous or otherwise. Annuitants encounter no inconvenience or trouble in collecting the payments. Frequently, the procedure is to have checks sent to reach the annuitants on the due dates. Such checks are easily cashed and banked upon personal endorsement by the annuitant. By a novel plan of some companies the annuitants are provided with books of annuity checks or drafts that the annuitants may cash, upon proper and identified endorsement, in virtually any country on the day the payments become due. Such a scheme has particular advantages where the annuitants are frequently traveling. This, of course, is not an uncommon thing for them to do, for there are no restrictions as to residence or travel, and they have a regular life income.

There are no expenses imposed upon annuitants in collecting the life incomes, and law suits are not necessary to make collections. Annuity contracts have had a very good record of freedom from litigation. The annuity contracts are quite clear and simple in their statements. The entire contracts are carefully drawn, and involved statements over which law suits might arise are avoided. In many cases under bequests made by will, however, there may be litigation in the distribution of the bequests.

Except for survivorship annuities or where disability benefits are purchased in connection with annuities, the prospective annuitant does not have to bother about submitting to a medical examination, which is frequently looked upon as more or less troublesome. Furthermore, the medical examination does not stand in the way of securing the contract.

Annuity experience indicates that annuitants as a class are long-lived. Under annuity mortality tables the life expectancy is higher than under life insurance tables. The constantly improving mortality record of annuitants is favorable to the purchasers of annuities in general.

Of course, this favorable longevity of the annuitants as a class to a certain extent comes from the fact that only persons in good physical condition will buy annuities. However, the favorable results of a secure income must not be overlooked. An adequate annuity is frequently the best medicine aged persons can secure. It banishes the dread of living too long, that is, living to see one's capital exhausted, because a definite income is guaranteed as long as the annuitant lives. Furthermore, it permanently prevents worry over the necessities of life and leaves the annuitant free from investment anxieties and responsibilities to enjoy life. There is a real incentive, also, to live to get the annuity checks—to beat the insurance company, so to speak.

The accumulation of sufficient money for independent old age by small annual savings requires constant saving over a long period of time without loss of previous savings. For example, in order to accumulate $10,000 by saving $300 a year, without interruption, at five per cent compound interest requires 20 years; or even if six per cent is earned, it will still require 19 years. This plan is defeated, of course, if there is any in-

terruption in the yearly saving, a loss of any of the savings, or any reduction in the interest rate.

Few men and women are able to save consistently over a considerable number of years without some definite goal that compels them to save a certain sum of money periodically. The installment premium deferred or retirement annuity gives the annuitant a systematic plan of saving during the income-producing years that is guaranteed to provide a certain retirement income for life without being subject to any losses. This scientific and safe plan of accumulation for future independence is very advantageous to men and women receiving small and medium incomes, because under the deferred or retirement annuity a smaller amount of money will guarantee a given retirement income for the remainder of life than is required by other means.

Annuity on last survivor. *See* Joint and Survivor annuity.

Annuity tables. In the last 50 years no less than four important annuity tables have been compiled and used in the United States. Emory McClintock, actuary of the Mutual Life Insurance Company of New York, compiled a table in 1899. This table was adopted by New York, Massachusetts, and other states as the recognized table for the valuation of annuities. In 1920 Arthur Hunter constructed the American Annuitants' Table of Mortality from the experience of 20 American companies underwriting about 95 per cent of the annuities on single lives resident in the United States. The Combined Annuity Mortality Table, published in 1928, although first constructed as a suitable standard for valuing group annuities, was adopted by New York and other states for the valuation of individual annuities. Because of the considerable improvement in the mortality of annuitants, these above-mentioned tables have been replaced by the 1937 Standard Annuity Table, compiled by Frank D. Kineke.

An indication of the improvement in the mortality of annuitants may be seen from a comparison of the rates in the four tables.

MORTALITY RATES PER 1,000

Age	McClintock	American Annuitants	Combined Annuity	1937 Standard Table
Male				
50	15.42	13.15	10.35	9.29
60	27.50	25.66	23 02	19 75
70	57 22	53 05	50.81	41.76
80	127.90	111.65	110.18	87.16
Female				
50	9.60	10.56	7.51	6.36
60	18 84	19.84	16.73	13.55
70	41.66	40 31	37.07	28.75
80	96.68	84.58	81.09	60.46

Antedating policy. A provision by which the policy shall purport to be issued or to take effect some time before the original application for insurance was made is known as the practice of antedating an insurance policy. Generally, where a policy is antedated or an indorsement is attached to a policy antedating the coverage, the matter must be passed upon and approved by the home office.

Some companies permit the dating back of the policy to save age for a short period generally not over six months, if the laws of the state do not prohibit the practice. It is a violation of the law, however, in many states to issue a policy dated prior to the date of the application if the insured is thereby rated at an age younger than the age nearest birthday at the date of the application. In Ohio, for example, the Insurance Department has ruled (February 18, 1925) that the date of examination, if later, determines the date of the ap-

plication. In prohibiting the back dating of life insurance policies the Ohio Code (effective August 19, 1943) says: "In determining the date when an application was 'made' under this section the date of execution of the application or the date of medical examination, where such examination is required, whichever is later, shall govern."

Anticipatory breach of contract. In life insurance, if the insurance company renounces the continuation of the policy, and, prior to the time the policy matures, indicates that it will refuse to carry out its obligations, the policyholder may elect to accept this as the decision of the insurance company. Of course, after the incontestable period, it would hardly be possible for a life insurance company legally to renounce the contract. Where the insurance company abandons the contract by its own actions, the policyholder has a right to bring a legal action for damages in some jurisdictions and may sue in equity to force the insurer to live up to the contract in other jurisdictions. The measure of damages to the policyholder is one of the interesting and important questions in connection with an anticipatory breach of contract. For a discussion of the legal rules involved and citation of cases on anticipatory breach see Vance, *Handbook of the Law of Insurance,* 2nd. ed., pages 325–333. *See* Incontestable clause.

Anti-discrimination law. *See* Discrimination.

Anti-military clause. *See* Military or naval service.

Anti-rebate law. Most states have passed laws against rebating. Such laws prohibit any rebate of the premium payable, any special favor or advantage in the dividends, any special advantage in the date of the policy, or any other kind of valuable consideration or inducement. *See* Rebating.

Anti-selection at surrender. Terminations that take place shortly after the policy is issued add to the expenses of the life insurance company because of increased clerical operations. Since most surrenders occur during a business depression, selection is against the company on both its mortality and investment funds. Withdrawals come usually from the policyholders in good health, and this fact will eventually produce a higher mortality rate for the remaining members of the group. Finally, these surrenders take place on a large score when the opportunity for favorable investment experience is poor. *See* Adverse selection.

Anti-twisting law. *See* Twisting.

Antwerp Ordinance. A statute was passed in Antwerp in the sixteenth century prohibiting the use of life insurance. Life insurance was also prohibited by statute in Genoa in 1588, in Amsterdam in 1598, and the Ordinance of 1681 renewed the earlier prohibition in France. These prohibitions were based on the grounds that life insurance was a wagering contract and contrary to public policy.

Applicant. The person who makes the request for an insurance policy is called the *applicant. See* Applications for insurance.

Applicant's waiver-of-premium benefit. In juvenile ordinary insurance and with juvenile monthly-premium industrial policies, the applicant and premium payer is usually a parent. If the parent should die prior to the time the child reaches maturity, premiums might not be available, and the juvenile insurance would be terminated. To avoid this problem these policies frequently contain a benefit that waives the payment of premiums if the premium payer

should die before the child reaches 21 years of age. An extra charge is made for this waiver-of-premium benefit. *See* Juvenile insurance; Waiver of premium.

Applications for insurance. An application, sometimes called a *proposal,* consists of a series of statements, declarations, or warranties, describing the risk and giving the name of the party desiring the policy. In reality, it is a formal request for insurance on the part of the applicant and usually is made on a form furnished by the insurance company. When a policy is written, an exact copy of the application is frequently attached, the application and the policy making up the entire contract. Courts in many jurisdictions have held that the application is a part of the contract, where the policy language clearly indicates the intention of making it a part of the contract (*Mutual Life Ins. Co. v. Kelley,* 114 Fed. 268, 52 C. C. A. 154). Generally speaking, the first step in securing an insurance policy is to fill out an application. Usually this is done, in practice, by the agent or broker.

In many cases the request for insurance comes from the person desiring insurance protection, although an offer of insurance may be made by the insurance company. Other words, such as *plan* or *survey* have been used interchangeably, especially in fire insurance, to indicate the nature of an insurance application. The insurance companies furnish the applicant with application forms, and may require that a separate application be made for each policy of insurance.

Several different forms of applications are used in life insurance, but the usual form is divided into two main parts. Part one contains two sections: the first covers inquiries and statements made by the applicant to the agent; the second includes an agent's declaration or certificate. Part two is also divided into two sections, the first of which contains questions that must be answered by applicant and recorded by the medical examiner with no one else present, the second section embodying the statements made by the medical examiner from the findings of the medical examination. *See* Medical examination; Non-medical insurance; Selection of risks; Inspection report.

Appointee, loss payable to. *See* Assignment of policy.

Apportionable to date of death. In practice most annuities are nonapportionable. When, however, a pro rata fractional payment is made to the estate of the annuitant, the annuity is said to be apportionable to date of death. Such an annuity involves an extra premium charge for this additional fractional payment because death will, on the average, happen midway between two annuity payment periods. *See* Complete annuity; Curtate annuity.

Apportionment of surplus. This is a practice in insurance, particularly in life insurance, which deals with the "disposition" of an earned surplus. It may be divided among policyholders (participating insurance) or may be given to stockholders (nonparticipating insurance). *See* Distribution of surplus; Divisible surplus.

Armstrong Investigation. In the year 1905, an investigation was made under the chairmanship of Senator Armstrong in New York State into the affairs of the life insurance companies. The resolution appointing the committee stated the purpose of this investigation as follows:

> To investigate and examine into the business and affairs of life insurance companies doing business in the State of New York, with reference to the investments

of such companies, the relation of the officers thereof to such investments, the relation of such companies to subsidiary corporations, the government and control of said companies, the contractual relations of said companies to their policyholders, the cost of life insurance, the expenses of said companies, and any other phase of the life insurance business deemed by the Committee to be proper, for the purpose of drafting and reporting to the next session of the Legislature such a revision of the laws regulating and relating to life insurance in this state as said Committee may deem proper.

As a result of this investigation a new insurance law was enacted in New York State in 1906. Many of the recommendations of the Armstrong Committee were embodied in this law and the act became somewhat of a standard code, many of its provisions being copied by the laws of other states. For a more detailed account of this investigation, see Henderson, *History of the Insurance Investigation.* *See* State supervision; Regulation and supervision.

Army service. *See* Military or naval service.

Arrears in premiums. The reinstatement provision of a life insurance policy calls for the payment of past due premiums with interest at a fixed rate per annum. In industrial life insurance, if the policy has a sufficient reserve value, the premiums in arrears may be charged as a lien against the policy. When interest is charged the interest is figured from the due-date of each premium and not from the end of the grace period. Some companies print tables in their field manuals to assist agents to find the interest on premiums overdue on policies to be revived. *See* Reinstatement.

Articles of incorporation. *See* Incorporation.

Assessment life insurance. Insurance, where the benefit payable is dependent upon the collection of assessments that may be necessary to pay the sum required and where the payments are not permanently fixed by the policy, is called *assessment insurance.* Insurance by a society, fraternity, or association under an agreement that allows the organization to increase the required payments of the insured whenever necessary to meet claims is known as assessment insurance. Under such plans, these organizations rely on their privilege to levy any necessary assessments and so do not accumulate any adequate reserve. A legal reserve is not required by law, but may be voluntarily maintained, as is the case with some so-called assessment associations today. Assessment insurance does not guarantee an absolute amount at death in consideration of a fixed premium charge. Either the amount of the policy or the maximum amount of the premium is uncertain. *See* Assessments; Fraternal insurance.

Assessments. In insurance practices, *assessments* are charges made upon policyholders by the insurer. These charges, which may be looked upon as a tax, are made because of the insufficiency of the initial payment of the insured to take care of the losses involved.

Assessment of mutual companies must be made upon all members liable. In mutual insurance also, liens for premium and premium notes are usually provided for by statutory or charter provisions. There is no lien unless specifically provided for.

If a member in a mutual benefit association has definitely agreed to pay all dues and assessments for which he may be liable, he is liable for assessments arising from claims due to death of members while he is a member. On the other hand, it

has been held that, if there was no such agreement, he may pay such assessment or forfeit his membership as he desires.

In fraternal and assessment life insurance, the contribution to the fund maintaining the insurance is usually called an "assessment" instead of a "premium." This assessment is not a fixed amount like the premium, but the amount that the participating members must pay depends upon the "experience" of the association. *See* Fraternal insurance; Business assessment association; Premium.

Asset share system. Under the so-called deferred dividend or tontine system in life insurance, the asset share system was a method of calculating the amount of dividend to each surviving member of the group. The scheme was to deal with each group of similar deferred dividend policies separately, and the accounts of each group were kept separately from the other affairs of the life company. All receipts, payments, income, and the like were thrown into a "pool" until the close of the period of deferment. At this time the surplus available for distribution consisted of this "pooled fund" minus the necessary reserve. From this remaining surplus the amount payable to each surviving member of the group was ascertained, and the method was known as the "asset share."

The term *asset share* is used in reference to the amount available in a life insurance policy for granting the nonforfeiture values. In the case of the cash value, for example, the amount of the cash value may be made to be the difference between the premiums and interest thereon paid by the insured and his asset share, which is the policyholder's share of expenses and mortality costs. For a discussion of the asset-share theory which takes into account premiums paid by a policyholder and his share of expenses and mortality costs, see the report of the Insurance Commissioners' Special Committee to "Study Non-Forfeiture Benefits and Related Matters." *See* Deferred dividend; Tontine policy.

Assets and liabilities. Briefly stated, assets represent what an insurance company owns, and liabilities indicate what are the obligations of the company. In the convention blank, the prescribed annual report required of all life insurance companies, assets are divided into several categories, such as: (1) admitted assets; (2) assets not admitted; (3) ledger assets; (4) nonledger assets; and (5) gross assets.

The assets shown in the financial statement to policyholders are "admitted assets," which are those assets permitted by law to be used in determining total assets available against the company's liabilities. The main groups of such assets are: (1) cash; (2) bonds; (3) stocks; (4) mortgages; (5) real estate; (6) policy loans; (7) premiums due and unreported; (8) collateral loans; (9) interest due and accrued.

The most important facts to be observed in studying the assets of a life insurance company are: (1) the safety of its investments; (2) the yield or return received; (3) the nature of their diversification, as to quality, territory, types, and dates of maturity; (4) convertibility or liquidity; and (5) valuations placed on these securities.

Chief among the obligations of a life insurance company are: (1) policy reserves; (2) policy funds; (3) surplus to policyholders; (4) reserve for taxes payable next year; (5) reserve for dividends to policyholders; (6) investment contingency reserve; (7) policy claims in process of settlement; (8) capital stock, if any. *See* Disbursements to Policyholders; Income and Disbursements.

Assignee. In insurance practices, the person, firm, or corporation to whom or to which the insurance policy is transferred is called the *assignee.* The party making the transfer or from whom the interest in the policy is transferred is referred to as the *assignor. See* Assignment of policy.

Assignment of policy. An assignment of a life insurance policy is the partial or complete transfer by the insured of his right or interest in a policy issued on his life to another. Most life insurance policies contain a provision in the contract on assignment, typical of which is the following: "No assignment of this policy shall be binding upon the company unless and until it be filed with the Company at its Home Office. The Company assumes no responsibility as to the validity of any assignment." Such a provision has no effect, however, on the legal rights of an assignee, if a notice has been given the company.

Many problems have arisen in connection with assignments because of: (1) lack of uniformity in the methods of assignment; (2) variation in company practices; (3) differences in the state laws; (4) and the existence of many assignment forms. Then, too, assignments may be of different kinds such as: (1) voluntary; (2) conditional; (3) absolute; (4) pretended.

A standard form, known as the "Form Approved by Bank Management Commission, American Bankers Association," is now in general use for bank assignments. Life insurance companies have their own forms, depending on the type of assignment. *See* Absolute assignment; Voluntary assignment; Conditional assignment; Pretended assignment.

Assigns. In a life insurance policy the designation of beneficiary provision may read as follows: "To . . . . . ., wife of the insured, if she survive him, if not. to his executors. administrators. or assigns." In the event of the death of both the insured and the named beneficiary, provided there has been no assignment, the proceeds under the policy are collectible by the executors or administrators of the estate. *See* Beneficiary.

Assurance. *See* Insurance—assurance.

Assured–insured. The word *assured* is often used interchangeably with the term *insured.* If any distinction in use is to be made, probably the term *insured* refers chiefly to personal forms of coverage, such as life, accident, and health. On the other hand the term *assured* is used for property coverage. Some writers have attempted, though the distinction has not been too successful, to make the beneficiary as the person "assured of indemnity" in event the insured dies.

Attained age. In life insurance, other than industrial policies, the age nearest the next birthday of the assured is taken as the age at which the policyholder is insured. His premium payments are based on this age. Since the age is based on the nearest birthday, it is often referred to as the *attained age* of the insured. *See* Admission of age; Age of insured; Age change; Age factors.

Attestation clause. Most insurance policies usually have a clause following the general provisions of the policy, sometimes called the attestation clause, execution clause, operative clause, witness clause, or recital clause, in which the officers of the insurer subscribe their names to the policy to complete the contract. The following is a sample attestation clause from a life insurance policy:

In Witness Whereof the Company has caused this Policy to be executed at ______, this ______ day of ______, 19__.

Secretary President

Attest: ________________

Registrar

The policies are printed by the company and usually contain the signatures of the president or vice president and a secretary of the company, so that only the authorized agent of the company or the branch manager of the company signs the contract when it is issued to the policyholder.

Authority of agents. Under the doctrine of agency in insurance law an agent may obtain powers of acting with insureds in a number of ways: (1) expressly given to him in writing; (2) incidental to these expressed powers; (3) conferred by the custom and usage of the business; and (4) apparent from the scope of his authority. The principal, or insurance company, may limit the powers of its agents, provided these restrictions are made known to the insureds dealing with the agents. Such limitations on the powers of agents are given publication in the application forms and the policy contracts.

Most companies print what constitutes the authority and duties of their agents in the field manuals. Typical of the authority of the agent is the following:

> Agents are authorized to procure applications for life insurance, to collect the first premiums (and no more) for policies issued thereon, and to give any other services in connection therewith required by the Company.

Life insurance companies also state in their agent's manuals what limitations are placed on the authority of the agent. The following is a characteristic sample of such limitations:

> Agents have no authority to make, modify or discharge contracts; to bind the Company by the acceptance of any risk, to waive forfeitures, to issue permits, to grant extensions, or to make any promise on behalf of the Company not actually stated in its printed contract, or to waive any conditions of a policy or contract, or to make statements, either verbal or written, which might be construed as binding the Company. Agents have no authority to accept anything but cash in payment of premiums unless by special authority from the Home Office, or to receive any money due or to become due the Company except on applications secured by them, or on policies and premium receipts which may be sent them for collections.

See Agent's power to waive policy provisions.

Authorization to transact business. *See* Certificate of authorization.

Authorized company. *See* Unauthorized company;Nonadmitted companies.

Automatic convertible term insurance. *See* Convertible term.

Automatic option on lapse. There is a provision in life insurance policies that provides for paid-up or extended term insurance values that continue automatically in event of lapse. Where the extended insurance option is the automatic option on lapse, the paid-up insurance option is usually available on request of the insured. Today this is one of the standard provisions and is required by state laws. The following is a sample provision taken from the insurance laws of North Dakota:

> In event of default of any premium due on any policy, provided not less than three full years' premiums shall have been paid, there shall be secured to the insured without action on his part, either paid up or extended insurance as specified in the policy, the net value of which shall be at least equal to the entire net reserve held by the company on such policy less two and one-half per centum of the amount insured by the policy and dividend additions, if any, and less any outstanding indebtedness to the company on the policy at the time of default. There shall be secured to the insured the

right to surrender the policy to the company at its home office within one month after date of default for the cash value otherwise available for the purchase of the paid up or extended insurance as aforesaid.

See Cash surrender value; Extended term insurance; Nonforfeiture options; Paid-up insurance rights.

Automatic premium loan. This is one of the provisions of life insurance policies whereby the policy is kept in full force on its original plan, being merely subject to the indebtedness created by the loan of premium with interest. Some states, Rhode Island in 1934 and Montana in 1943, have made this a compulsory provision of policies issued in their jurisdiction. The automatic premium loan provision makes it possible for the insured to resume the payment of his premiums without undergoing a physical examination or furnishing evidence of insurability as would generally be the case under a policy without this provision. Payment of the indebtedness on the policy and resumption of premium payments are all that are necessary to reinstate the policyholder. A typical automatic premium loan provision of a life insurance policy reads as follows:

If due written request for the operation of this provision has been filed at the Home Office of the Company before default in payment of premium, thereafter until a written revocation of said request has been filed with the Company, the amount of any premium not paid before the end of the grace period will automatically be loaned by the Company in payment of such premium and charged as an indebtedness secured by this policy, subject to interest at the rate of six per cent per annum as prescribed for loans, provided that the total indebtedness hereunder will then be within the loan value described in Section 6. If the loan value is insufficient to cover the whole premium, the Company will loan a pro rata premium for as long a period as the loan value will allow. At the end of such period, if the balance of the premium be not paid, this policy shall cease; subject, however, to thirty-one days' notice as provided in Section 6 hereof.

While this policy is continued in force, as above, the whole or any part of the indebtedness may be repaid and payment of premiums may be resumed at any time without furnishing evidence of the good health of the insured.

Generally the insured may request that the automatic premium loan be applicable either in his original application or subsequently in some companies. The premiums paid under this option become a first lien on the policy. This process continues, the loan automatically applied to pay the premium, so long as the loan value is greater than the indebtedness. Some writers have criticized this provision on the grounds that it has a tendency to increase lapses, creates adverse selection, is not as favorable as extended term insurance to the policyholder, and might involve the company in additional expenses. *See* Option of surrender or lapse; Nonforfeiture options.

Automatic reinsurance. *See* Reinsurance.

Average after lifetime. *See* Expectation of life.

Average age. Sometimes the expression *average age* is used to designate the premium computed on group life insurance. Usually the concept is incorrect, for the premium computation is based on the average premium and not on the average age of the group insured. A rough estimate of the cost is sometimes made for employers, when the ages of his workers are known; but the actual charge is usually based on the "average age" corresponding to the average pre-

mium, which is usually higher than the average age of any group.

At one time fraternal societies collected their assessments on the theory of the "average age." The idea was that enough "new blood" would come into the system to keep the average age quite low; hence assessments based on an average age would be sufficient to take care of all claims. The fallacy of the "average age" idea is shown by the fact that in a society of young members the assessments are low; but as the membership increases in age the death claims increase and assessments increase, and it becomes increasingly difficult to interest young people in becoming members. *See* Age factors; Age change; Age of insured; Group life insurance.

Average future lifetime. The American Experience Table of Mortality is printed with a column called the "average future lifetime." The average future lifetime is the average number of years that a large number of person of any given age have yet to live. The expectation of life is, in other words, the sum of years that all will live divided by the number of persons.

Although the average future lifetime figure may be used for computing "life values," it is not the figures used by insurance companies in the computation of premiums. The "rate of mortality" is the most important column of figures in the mortality table, and basic to the calculation of premiums. *See* Expectation of life; Most probable after lifetime; Probable lifetime.

Average risk. *See* Substandard insurance.

Aviation hazard. An increase in the use of aviation has created a problem in the selection of these classes of risks, both passengers and pilots. In the beginning of air travel most companies charged an extra premium for passengers and hesitated to grant any coverage to pilots. Now many companies will insure fare-paying passengers on regular established routes without any extra charge. Some companies limit the number of flights; some will not insure purely pleasure trips.

In regard to pilots the practice of the companies is not uniform. Much depends on the class of pilots, whether regular scheduled-airline pilots, private commercial company pilots, student pilots, or military pilots. Some companies will accept regular scheduled-airline pilots at an extra premium. Some companies will accept private pilots at suitable extra premiums. Most companies will not insure student pilots. In a number of companies individual consideration is given to each case.

Many companies will not pay the double indemnity benefit in event that death results from the aviation hazard. Many companies control the aviation hazard by means of an aviation exclusion clause in their policies or by means of the war and aviation clause. *See* War clauses.

B

Back dating. *See* Antedating policy.

Balance sheet. A statement of the assets and the liabilities constitutes the typical company balance sheet. The following example gives an explanation of most of the items in the balance sheet.

ASSETS

U. S. Government Bonds Values on amortized basis according to state laws	$156,375,675.00
Other Bonds Consisting of $104,504,000 of public utilities; $61,894,000 of railroads; $20,361,000 of industrials; $7,125,000 of equipment trusts; $3,153,000 of municipals; and $430,000 of Canadian Government obligations. Values on amortized basis according to state laws or on basis prescribed by National Association of Insurance Commissioners	197,467,043.00
Mortgages on Real Estate Consisting of $1,079,000 on farms and $52,547,000 on other real estate	53,626,200.07
Stocks Consisting of $8,422,000 of preferred and guaranteed stocks and $6,352,000 of common stocks. Market values furnished by National Association of Insurance Commissioners	14,773,980.00
Loans on Policies of the Company Advances on account of policy liabilities	22,674,823.17
Real Estate Includes $2,700,000 for Home Office plant	16,658,829.00
Cash in Banks and Office	3,548,595.21
Accrued Interest Includes $2,486,000 on securities; $352,000 (net) on mortgages; and $685,000 on policy loans	3,558,651.34
Overdue Interest Includes $30,000 (net) on mortgages; and $293,000 on policy loans	342,436.86
Deferred and Uncollected Net Premiums, Etc. Including instalments to complete contract year, fully covered by reserves	5,211,032.04
The Total Admitted Assets Are	$474,237,265.69

LIABILITIES

Reserves for Policies and Supplementary Contracts This fund at interest, together with future premiums, is to provide for future obligations as they fall due	$421,619,309.95
Dividends Left With the Company Including dividends left to accumulate at compound interest and dividends due and unpaid	10,241,185.41
Dividends Set Aside for Distribution The estimate of dividends that will be paid to policy owners during the entire year 1945	3,920,000.00
Premiums Paid in Advance	5,085,406.70
Policy Claims This amount is set aside to pay known or unreported claims incurred but not yet settled	1,977,555.45
Estimated Taxes Accrued, Payable in 1945	962,857.00
Miscellaneous Liabilities	590,282.49
Special Reserves Special Reserve of Unrealized Appreciation on Bonds and Stocks Valued on a Market Basis	2,094,018.00
Special Reserve on Account of Future Interest Requirements	1,318,055.00
Total Liabilities	$447,808,670.00
Contingency Reserves Consisting of Asset Fluctuation Reserve of $14,513,399.00 and Mortality Fluctuation Reserve of $11,915,196 69	26,428,595.69
Total, Equaling the Assets	$474,237,265.69

NOTE: The Company in December, 1944, subscribed for $47,000,000 of United States Government bonds to be settled for in 1945, of which $20,000,000 were taken up by banks and are being held by them for the account of the Company.

Bank balances. A schedule in the convention blank annual statement form requires the life insurance company to show: (1) the amount of each bank balance carried; (2) the largest balance in each bank for each month of

the year; (3) the amount of interest received; and (4) the rate of interest. Separate listings are required of sums deposited in suspended banks or trust companies. *See* Annual statement.

Bank loans. Banks will sometimes make loans on the security of life insurance policies both ordinary and industrial. Many industrial policies, which usually have no provision for loan values, provide that an assignment may be made to a national, or state bank or a trust company. In fact, the New York Law, effective in 1944, requires the bank assignment provision in the policy. Ordinary policies, which generally provide loan values, are assignable to a bank, and the banks have a uniform form of assignment. *See* Assignment of policy.

Basic premium. Sometimes the term *basic premium* is used to designate a premium composed of the two elements of mortality and interest. To this so-called "basic premium" the third element of expense, called loading, is added to make the gross premium.

Premiums are often quoted on a different basis for ordinary insurance from that for industrial insurance. A unit of $1,000 of insurance fixes the basic premium for ordinary insurance. Weekly premium insurance, on the other hand, is often quoted on the basis of a certain amount of insurance that can be purchased for a weekly premium of five cents or multiples thereof. *See* Premium payments.

Basic rating. *See* Numerical rating system.

Basis of settlement. Life insurance policies are settled, so far as claim payments are concerned, either on a cash lump-sum basis or on an income basis. *See* Optional modes of settlement; Income policy; Income settlements.

Beneficial society. This is a voluntary association organized for mutual assistance for the members during periods of sickness and for the families of deceased members. Such an organization offers co-operative life insurance. Membership in such an association entitles the designated beneficiary to the payment. *See* Mutual benefit association; Burial insurance societies.

Beneficiary. A person with an insurable interest in the life of the insured to whom a policy is made payable in event of the death of the insured is the beneficiary. The person or institution to whom the amount under a policy of insurance is payable is also called the beneficiary. Some states have passed laws restricting the classes of persons who may be named by the insured as beneficiaries. Such laws are not, as a rule, retroactive. Mutual benefit associations usually place restrictions on what persons may be named as beneficiaries. The beneficiary under a group insurance policy is generally someone other than the employer.

Generally speaking, life insurance policies are written under two conditions: (1) where the policyholder reserves the right to change the beneficiary: (2) where the assured does not reserve the right to change the beneficiary. A typical policy provision on the "change of beneficiary" reads as follows:

> Provided this contract is not assigned, the insured may at any time and from time to time during its continuance change the beneficiary, to take effect only when such change and the written consent of the company thereto are indorsed upon the contract, at the Home Office of the Company, or attached thereto, whereupon all rights of the former beneficiary cease. If the insured shall survive the Beneficiary or Beneficiaries or any of them named herein, the proceeds of the

contract or the share of the deceased Beneficiary or Beneficiaries, as the case may be, shall be paid to the executors, administrators, or assigns of the insured, unless otherwise provided in or by indorsement upon the contract.

Under the provision just mentioned, the policyholder retains complete control over the insurance contract. The original beneficiary does not have any vested interest in the policy but secures only an expectancy. Court decisions have been rendered to the effect that a clause in a life insurance policy under which the insured has full power to change the beneficiary places the policy open to the claims of creditors, and, in the event of bankruptcy of the insured, the policy may pass to his assignee by court order. Laws have been passed in many states to protect life insurance policies purchased for family protection against the claims of creditors; but the existence of such a clause in the policy giving the insured the absolute right to change the beneficiary, to borrow on the policy, or to surrender it without the consent of the named beneficiary makes the matter uncertain.

Where the policyholder does not keep for himself the right to change the beneficiary at will, the named beneficiary has a vested interest in the policy, which is, of course, dependent upon the payment of the premiums maintaining the policy in force. In such a case, the policy cannot be assigned or changed without the written consent of the beneficiary. The beneficiary under such a policy has a vested interest, even though such party is not aware of the contract. Such a policy, taken out for family protection, is usually considered to be secure against the claims of the creditors of the insured. For example, it has been held (*Central Bank v. Hume,* 128 U. S. 195) that the insured cannot exercise any power of disposition over such insurance without the consent of the beneficiary:

> We think that it cannot be doubted that in the instance of contracts of insurance with a wife or children, or both, upon their insurable interest in the life of the husband or father, the latter, while they are living, can exercise no power of disposition over the same without their consent; nor has he any interest therein of which he can avail himself, nor upon his death have his personal representatives or his creditors any interest in the proceeds of such contracts, which belong to the beneficiaries to whom they are payable. It is indeed the general rule that a policy, and the money to become due under it, belong, the moment it is issued, to the person or persons named in it as beneficiaries, and that there is no power in the person procuring the insurance by any act of his, by deed or by will, to transfer to any other person the interest of the person named.

See Contingent beneficiary; Estate beneficiary; Insurable interest.

Beneficiary insurance. Beneficiary insurance is used to prevent the lapsing of a policy at the death of the person paying the premiums. In the event of the death or total and permanent disability of the premium payer, the premiums falling due subsequently are waived and the policy remains in full force. This is generally a provision offered in connection with juvenile insurance. Additional premiums for beneficiary insurance are shown in rate tables for various combinations of ages. *See* Payor benefit.

Benefit association. *See* Mutual benefit association.

Benefit certificate. In an assessment or fraternal insurance association, each member receives what is called a *benefit certificate,* in which the obligations assumed by the association or fraternal society are promised to the assured. The benefit certificate in

fraternal insurance corresponds to the policy as written by stock or mutual legal reserve insurance companies.

Benefit of doubt. *See* Ambiguous clause.

Benefit of selection. Risks which are carefully picked by the agents and the company are termed *select risks* and are equal to or above the standards maintained by the company. Experience has shown that the loss ratio is lower on select risks. This advantage, which accrues to the company, is termed the *benefit of selection.* Adverse selection exists where the insurance company finds a large percentage of its risks are substandard or below the average. *See* Selection of risks; Adverse selection; Substandard insurance.

Benefit of survivorship. *See* Tontine policy.

Benefits. The indemnities or payments specified in the insurance policy are often called the *benefits.* In addition to the death benefit, life insurance policies may contain other benefits such as: (1) waiver of premium in event of disability; (2) payment of income because of permanent disability; and (3) double indemnity. Industrial policies often contain the loss of eyesight or limbs benefit and the accidental death benefit.

Sometimes the life insurance policy designates as benefits the following privileges: (1) automatic premium loans; (2) privilege of change; (3) grace period; 4) optional modes of settlement; (5) loan provisions; (6) nonforfeiture provisions; (7) reinstatement; and (8) privilege of term insurance in case of a loan.

Benefits of insurance. *See* Uses of insurance.

Benevolent societies. Under the laws of some states secret benevolent associations may accumulate reserves or funds of moneys for the purpose of endowment of the widows, orphans, families, blood relatives, or heirs of the members of the society. Funds may also be invested under certain legal restrictions for purely charitable purposes. Such societies are permitted to receive voluntary donations and are allowed to levy assessments. These assessments are generally limited by law so that they shall not exceed one fifth of one per cent of the amount, payable at the death of a member. Beneficial societies also often pay benefits in event of sickness, accident or disability.

Bequest insurance. This is life insurance, the proceeds of which are made payable to charities, educational, social, religious, patriotic, and benevolent institutions. In some cases, for example, college men have left a policy of life insurance assigned to the university for which they have a special interest. The opportunities for the sale of life insurance in the form of bequests for educational, benevolent, and charitable organizations are increasing. Estates devised by will often shrink because of federal and state taxes as well as market changes in value of securities.

Some of the merits of bequest insurance may be summarized as follows:

1. Payment of such bequests is immediate and in cash.
2. They are provided for apart from the general estate and no heir feels aggrieved because he sees the estate diminished by such bequests.
3. Interest, taxes and expenses are saved. There are no taxes and no charges of administrators or trustees in connection with a policy thus left.
4. The bequest is certain. It is independent of the general estate and not subject to fluctuations of value, expenses, and so forth.

The life policy is payable in cash at maturity and guarantees a sufficient sum to take care of the bequest.

5. No will has to be made, and changing conditions can make necessary no changes in a will to meet the new conditions.
6. No contests can arise as in case of bequests by will. The money is paid at once to the beneficiary named.
7. It is unlikely that the donor will ever desire to withdraw a bequest made through a life policy.
8. It is easy to make. A comparatively small percentage of the sum to be bestowed takes care of the premiums on the policy.
9. By reason of the cash and loan values of the policies, such a bequest has additional advantages in some cases, for the policies can be used to secure emergency cash when in the hands of the institution and made payable absolutely to it.
10. The benefactor who buys an endowment policy for the purpose, often lives to see his bequest in the hands of the institution, and can enjoy seeing this money at work carrying out the plans he had in mind when the bequest was made.

See Partnership insurance.

Best offer. *See* Alternate policy.

Binding receipt. This is a receipt that is given to the applicant for life insurance at the time an application is completed and the first premium for the policy is paid in full in advance. Such a receipt binds the company to issue the policy if the applicant proves to be the kind of risk as would ordinarily be acceptable under its rules. Generally the binding receipt results in the policy benefits' being payable if the insured should die before the policy is formally issued, provided, of course, the policy would have been issued in the usual course of underwriting. There is some question as to whether or not the applicant with a binding receipt would actually have a legally enforceable claim. *See* Effective date of policy; Delivery of policies.

Birthday. Since premiums for life insurance increase with age, the birthday of an applicant is an important item in the cost of insurance. The age at the nearest anniversary is the age upon which the premium is based in ordinary insurance. In industrial life insurance the premium is based on the anniversary of birth. *See* Attained age; Age of insured; Age change; Date of birth.

Blindness. *See* Selection of risks.

Blood pressure. *See* Medical examination.

Blood relationship. *See* Insurable interest.

Bond amortization. *See* Amortization.

Bonds. Leading all other types of investment assets, in most life insurance companies, are bonds. The main classes of these bonds are: (1) United States Government; (2) Canadian Government; (3) Municipal; (4) Railroad; (5) Public utility; and (6) Industrial. *See* Balance sheet; Assets and liabilities; Amortization.

Bonus. Provision is sometimes made to pay insurance agents, provided a stipulated amount of business is written, a commission payment in excess of what is regular. This sum is often called a *bonus.* Sometimes the return premium or dividend payment to a policyholder is called a bonus. The word bonus is also used occasionally in connection with personal accident insurance policies that contain a provision whereby the principal sum of the policy is increased on renewals. This is often called a cumulative bonus if it accrues from year to year. *See* Dividend pay-

ments; Distribution of surplus; Participating insurance.

Book premium. In life insurance practices, the premium that the policyholder pays is set forth for the age in a rate book. This premium is sometimes called the *gross premium* because it is made up of the *net premium* and the *loading expenses.* It is also called the *office premium* or *book premium. See* Premiums; Gross premium; Net premium.

Borrowing power. *See* Loans; Policy loan.

Branch manager. An individual placed in charge of the branch office of an insurance company is usually given the title of branch manager. Unlike the general agent, who is an independent businessman, the branch manager is directly responsible to the home office and his duties are under the guidance of that office. *See* General agent.

Branch office system. This is a method of handling the insurance business and is used by many insurance companies. In fact, some companies operate today almost exclusively on the branch office system. The country is divided into districts and a branch manager is placed in charge of each district. His remuneration is usually a stipulated salary and sometimes a percentage of the profits of the business.

In the United States, something of a struggle has been going on between the general agency system and the branch office plan of doing business. Branch offices were first started in the larger cities and then later on in larger territories. Two of the advantages claimed for the branch office system are: (1) it gives the insurance company a stronger and more complete control over its business; and (2) it tends toward a more intensive development of the territory. One of the difficulties of operating on the branch office system is the expense involved, since the insurance company must expend considerable money to pay rents, salaries, and other expenses before any business is produced. Although the tendency appears to be in the direction of the branch office system, there appears to be little chance that either system will become universal. For a more extended discussion of this topic see Magee, *Life Insurance,* 1939, Chapter VI. *See* General agent; Agent.

Broker. Any person, partnership, association, or corporation who, or which, for money, commission, brokerage, or anything of value acts or aids in any manner in the solicitation or negotiation on behalf of the insured, is a broker. A broker, therefore, is a representative acting on behalf of the insured. However, the broker may act for the insurer for the purpose of delivering the policy, collecting the premium, and remitting to the company. If the broker fails to remit the premium, the insurance company will be held liable on the policy especially if the insurance company has given the broker instructions for the collection of the premium. A broker places his insurance with a duly licensed agent of a company authorized to transact the insurance business. *See* Agent; Solicitor; Company service representative.

Build. The applicant's physical condition as to height and weight, and closely related measurements, is often referred to as *build.* Despite the appearance of good health, insurance experience has demonstrated that overweight risks are not as good as average weight risks. Particularly unfavorable is the overweight applicant whose abdominal girth is larger than the measurement of the chest expanded. *See* Weight of insured.

Bureau of War Risk Insurance. *See* War risk insurance.

Burial expense. Investigations have revealed that a large majority of the industrial wage earners have very little savings other than their life insurance. In the event of the death of the breadwinner a substantial portion of the life insurance goes to meet burial costs.

Many states have laws placing restrictions on payments of burial insurance. The laws of Maryland, for example, state: "All burial insurance benefits shall be paid in cash to the beneficiary. No person, association, or corporation engaged in the business of burial insurance shall contract to pay or pay such insurance or its benefits or any part of either to any official funeral director, undertaker or to any designated funeral director, undertaker, funeral directing or undertaking concern or to any particular tradesman or business man." *See* Funeral cost.

Burial insurance. Burial insurance is defined by the laws of some states as any kind of agreement, certificate, policy, contract, bond, assurance, guarantee, or other arrangement to provide for the burial of a named or designated person, or to save harmless anyone for the whole or part of the costs of the burial of the body of a named or designated person, or to pay any part or all of the incidents of the burial of the body of a named or designated person. Burial insurance, which is often written on the assessment system, is not to be confused with industrial life insurance, although some writers have called industrial insurance "burial insurance" on the grounds that certain companies have advertised industrial insurance as a means of providing a suitable burial for those who buy this type of protection. *See* Industrial life insurance; Fraternal insurance; Fraternal benefit society.

Burial insurance societies. In some states burial insurance societies issue certificates of membership to the members of such societies. These certificates, payable in money as a rule, usually contain the incontestable clause, reinstatement provisions, and grace period found in ordinary life insurance contracts. Burial insurance societies have bylaws and operate under both the assessment and fixed premium systems. These societies are under the supervision of state insurance departments and are required to post bonds and maintain deposits. In Illinois, for example, these societies are not allowed to advertise funeral supplies, and the beneficiary of a deceased member is not obligated to purchase funeral supplies or burial service from any specified person or undertaking firm.

Business assessment association. This is a commercial (profit-making) organization operating on the assessment basis. So-called business assessment associations, selling life insurance, have generally departed from the "equal levy" or flat assessment system. Persons selected for life insurance are charged a different assessment varying and increasing with their age. *See* Fraternal insurance.

Business insurance. Business insurance may be defined briefly as life insurance applied to the needs of a partnership or a corporation, and this distinct name is used simply because it serves a unique purpose. In its every phase it is indemnity and protection against money loss that may follow the death of persons financially valued, such as officers, executives, technical experts, or other valued employees. The idea of business insurance is based on the assumption that every successful business firm or corporation has a large asset in the intelligence and capacity of its individual members and that no business is independent of the personality of the man or men who manage or direct it. The test of business insurance utility

in a particular situation is this query: To what extent may financial loss follow the business and its credit without such insurance? Consideration of this question uncovers the enormous field that exists for the expansion of business life insurance.

Business insurance is generally confined to that included under the three subheads of copartnership insurance, corporation insurance, and group insurance. *See* Corporation insurance; Partnership insurance; Group insurance.

Business insurance trust. When life insurance policies, avails, or proceeds are deposited with a corporate fiduciary for business purposes, the transaction is usually called a *business insurance trust.* The word *trust* in this connection is used in a popular rather than in a technical sense. The object of such transactions is to provide the cash consideration necessary to enable surviving partners or stockholders to acquire the interest of deceased partners or stockholders.

The duties of the corporate fiduciary are simple: it collects the insurance proceeds and applies them to the purchase of the interest of the decedent and disposes of any excess of the proceeds in the manner set forth in the instrument. During the lifetime of the insured parties, the corporate fiduciary has no active duties to perform other than that of safekeeping the policies. Upon the death of one of the parties, unless unforeseen obstacles are encountered, the duties of collecting insurance policies and applying the proceeds may be accomplished expeditiously.

There is no long-continued trusteeing of the moneys, no life tenant or remaindermen; there are no investment duties, no discretionary powers. None of these usual concomitants of a trust is found in a business insurance corporate fiduciary transaction. The legal nature of such a transaction is more that of an escrow than a trust. If, however, the legal rights of the respective parties are clearly expressed and understood, no particular harm results from applying the word *trust* rather than the word *escrow* to a particular business insurance transaction.

In general there are three kinds of business insurance trusts applying to the three types of business organization: sole proprietorship, partnership, and corporation.

Although in special cases a business insurance arrangement may be made for sole proprietorships, the most frequent use of business insurance trusts occurs in the case of partnerships and corporations. Business insurance trusts affecting corporate and stockholders' interests are written upon two widely different plans. Under the first, which may be called the "stockholders' plan," the stockholders procure and pay for the insurance and make the trust agreement. The corporation is not a party to, nor in any way interested in, the transaction. Under the second arrangement, which may be called the "corporate plan," the corporation is a party to the arrangement and procures and pays for the insurance. The distinction between these two plans is important from the standpoint of a trust officer who is involved in handling business insurance trusts. For a more detailed treatment of personal life and business insurance trusts, see Prentice-Hall, Inc., *Insurance Tax Service.*

Business uses of insurance. *See* Partnership insurance; Corporation insurance.

Bylaws. In the organization of life insurance companies, bylaws are drawn up which generally control the internal administration of the company. Among the matters covered in the

bylaws, mention may be made of the following regulations: (1) Duties of officials; (2) Investment policies; (3) Scope of operations; (4) Type of coverages; (5) Committee arrangements; (6) Insurance limits; (7) Lines of insurance.

Bylaws have been an important item in mutual benefit insurance and fraternal insurance. Members are generally required to be bound by all bylaws in such organization. Quite a number of cases of litigation are on record over conflicts between the certificate and the bylaws, and bylaws that have been adopted or changed subsequent to membership. *See* Fraternal insurance.

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Calculation of dividend. *See* Dividend payments.

Calculation of premium. *See* Level premium; Net natural premium; Net single premium.

Calculation of reserve. *See* Reserves.

Calendar year reserves. It will be observed from an examination of a life insurance company's financial statement that the reserves are the largest part of the liabilities of a company. In actual practice policies are written and distributed periodically throughout any year. It is a reasonable statistical assumption to say that policies are equally distributed throughout any calendar year. On the average, then, each policy may be said to have been written as of June 30 in any calendar year. The reserve, therefore, for the calendar year (December 31) involves simply knowing the year of issue for the policy and the *mean* reserve. Such a reserve is called for in the annual statement. *See* Mean reserve; Initial reserve; Terminal reserve.

Canceled policies. A life insurance company may cancel a policy at any time before the incontestable clause goes into effect. Such a cancellation involves a return of all or a refund of a portion of the premium. Generally, if a company cancels a policy, the agent must repay to the company any commissions on premiums returned to the policyholder. *See* Incontestable clause.

Canvasser. This term is sometimes applied to an insurance solicitor. The word, however, is more applicable to a person asking for votes or traversing a district for orders, such as a book agent, who may canvass a town. Insurance agents soliciting industrial life insurance are often termed *canvassers*. *See* Agent; Broker; Solicitor.

Capability of parties. In the rules of law governing the insurance contract, aside from offer and acceptance, legal form, lawful purpose, no misrepresentation of a material fact, and the existence of a valuable consideration, the parties must be capable in a legal sense of making a contract. Insurable interest plays an important part in the competency of a person to secure life insurance.

Some persons are considered incompetent so far as the obtaining of a life insurance contract is concerned. Alien enemies and infants are among the classes of incompetent persons. Some states have passed laws making it possible for minors who are fifteen years of age to contract legally for life insurance. *See* Insurable interest; Juvenile insurance.

Capital guarantee. This term refers to a capital sum that is used to guarantee payments, if found necessary, usually in the beginning of a new life insurance company. If a sufficient number of policyholders are not available to secure the mortality that would come from the operation of the law of large numbers in the early years of the organization of the company, the guarantee capital fund

scheme may be utilized. Both mutual and stock companies have been organized under this method. *See* Stock company; Mutual company; Law of average.

Capitalization of life value. In attempting to ascertain what is the value of a human being on an economic indemnity basis for life insurance, a number of factors must be taken into consideration. First, it is necessary to find out what is the average future life time or life expectancy of the individual for his age. Second, it is essential to calculate the probable earning part of this period of years. Third, it is required to evaluate the average earnings for this period of time. Fourth, it is essential to separate the cost of living for the insured from the cost of his dependents. Finally, it is necessary to capitalize the amount that will be available to the dependents in order to appraise the present life value of the individual.

In the capitalization of the life value the assumption of interest is important. Interest rates have declined in recent years, and as a consequence it will take more capital at these lower rates to produce the needed income for dependents.

If the interest rate is assumed to be four per cent, the life value of a person 35 years of age, with an earnings required for the family of $2,000 yearly reaching over a period of 30 years, will be calculated as follows: $17.30 will pay $1 per year for 30 years at four per cent; then $34,600 ($17.30 × 2,000) will be required to pay $2,000 for 30 years. If the rate of interest were only three per cent, the sum required would be larger since $19.60 is required to produce $1 per annum for 30 years; so $39,200 would be necessary to provide $2,000 a year for 30 years.

Obviously, a life value of $34,600 or $39,200, computed on this basis, is larger than the amount of life insurance that an individual can carry, especially when the per capita amount of insurance in the United States is $2,000 and the average policy per family is less than $5,000. For an extended treatment of the life value idea, see Huebner, *The Economics of Life Insurance.*

Capital sum insurance. *See* Lump sum payments.

Carlisle table. This is a table of mortality published in 1815 and constructed by J. Milne from the vital statistics of the general population of two parishes in the town of Carlisle, England, during the eight-year period, 1779–1787. Owing to the limited number of lives under observation the table was restricted in its application. *See* Mortality tables.

Cash dividend. This is a dividend paid by a corporation out of the earnings or profits which may be taken in cash or used in payment for increase of stock for which the stockholder may subscribe. One of the options in a life insurance policy is to receive dividend payments in cash. *See* Dividend payments.

Cash options. Under a retirement annuity, when the contract matures, the annuitant has the option of taking either an annuity or the total cash value. The same type of cash option is also available under life insurance policies with an annuity such as the retirement endowment or endowment annuity contracts. At maturity date, if the policyholder is living, the cash option is available in lieu of the monthly income. *See* Optional modes of settlement.

Cash refund life annuity. Briefly, a cash refund life annuity provides, in addition to the life income, for a cash return by the insurer of any remainder of the guaranteed payment

in case of the death of the annuitant. As this cash refund annuity resembles the refund annuity so closely, only the distinctive features need to be emphasized.

According to the terms of the cash refund life annuity contract, the insurer agrees in consideration of the statements in the application and the receipt of the stipulated single premium to pay the regular income (annually, semiannually, quarterly, or monthly) to the annuitant during his lifetime regardless of the duration, with such income payments terminating with the last regular payment preceding the death of the annuitant. In addition, the company further agrees to pay in *one sum* to the named beneficiary (executors, administrators, or assigns) upon the death of the annuitant the excess, if any, of the amount paid as premium, without interest, over the total of the annuity payments made by the insurer. The refund payment of any such existing balance ends all the obligations of the company under the cash refund annuity contract. This cash refund provision is sometimes referred to as the "death benefit"; but if the insurer has returned to the annuitant during his life the amount of the original price, there is no refund payment, the contract terminating with the death of the annuitant.

While there is a balance of the purchase price remaining with the insurer, the cash refund annuity not infrequently gives the annuitant the right to terminate the agreement by surrendering the contract for its cash value. This value does not become available under some of these contracts until after the annuity has been in force a certain time, such as two years.

In order to compute the single premium for a cash refund life annuity it is necessary to know the sex and age of the annuitant at the last birthday as well as the frequency of the periodic payments. The published rate tables for this cash refund annuity usually specify for the various ages at last birthday:

1. The single premium purchase price of an annuity of $100 annually, $50 semiannually, $25 quarterly, and $10 monthly; and
2. The amount of annuity purchased by a single premium of $1,000 payable annually, semiannually, quarterly, and monthly.

Usually some proportional reduction in the purchase price is allowed for the elapsed time since the last birthday, such as for each month or each three months.

An attractive feature of this annuity is that in addition to the regular life income it guarantees the *cash* return of any balance of the purchase price remaining with the company at the death of the annuitant. In some cases it is preferable to receive a slightly smaller life income and to provide a cash benefit to some person in the event of the death of the annuitant before the minimum amount guaranteed has been paid by the insurer, whether for settlement of the expenses of the last illness or for the benefit of a person dependent upon the annuitant. In a certain sense the difference between the refund annuity and the cash refund annuity is the same as the difference between life insurance on the income plan and in the form of a lump sum settlement.

Like the refund annuity, the cash refund life annuity does not give the annuitant as high a rate of return on the principal as that obtainable under the life annuity. Furthermore, the annual return on the typical cash refund annuity, because of the interest factor, is usually somewhat

lower than that on the refund annuity.

Even though the return on the cash refund annuity is slightly lower than under the life annuity and refund annuity, its guaranteed annual return at the older ages is higher than the income that can be secured by other investments with any comparable degree of safety and regularity of permanent life income plus the elimination of all investment worries. *See* Annuity; Life annuities; Immediate annuities.

Cash surrender value. When a policyholder withdraws or cancels his contract of insurance, he will not receive back all the premium he has paid in. A sum will be paid, however, from the reserve value of the policy to a withdrawing policyholder, in life policies, under the nonforfeiture value section of the policy. The amount, called a cash surrender value, will be less than the premiums, accumulated at interest, that have been paid in. In theory, the largest sum that could be granted as a cash surrender value would be the full reserve plus dividends and any contribution to surplus. In actual practice, however, the real amount of the cash surrender value is fixed by the laws of the states in which the companies carry on their business. Often, no more than 80 per cent of the reserve is allowed as a cash surrender value.

It is a provision of most life insurance policies and required by many state laws that on default of premium payments the insured (who has applied with the named beneficiary for such cash surrender) is entitled to the cash surrender value of the policy usually after two or three annual premiums have been paid.

As a general rule, a life insurance company will not give the full amount of the reserve upon the surrender of a policy during the first few years of its existence because the company would have no chance to get back the amount spent for expenses in excess of loading. Generally speaking, it takes from about eight to ten years after the issue of the policy to cover the first year's expenses upon the issue of the policies that are in excess of the first year's loading. Consequently, the companies do not, as a rule, grant a surrender value until the end of the second year. In reality, then, that reserve, less the surrender charge, is known as the cash surrender value and may be obtained by the assured in cash upon application to the company and the surrender of the policy. It is even argued by some that the full reserve should never be paid as a cash surrender value because the policyholders who allow their policies to lapse produce an adverse selection on the company. *See* Nonforfeiture options; Extended term insurance; Paid-up insurance rights.

Cash value policy. A policy that provides for the payment of the face amount plus the cash value is known as a cash value policy. When the cash surrender value is paid at death in addition to the principal sum, an additional premium is charged for this supplementary benefit. *See* High interest policies; Guaranteed dividend.

Cause of death. In life insurance, although it is necessary to prove the fact of death, generally, it is not necessary to prove the cause of death. In Iowa it has been asserted that the plaintiff must show that the insured's death resulted from a cause covered by the policy (*Clark v. Iowa State Traveling Men's Assoc.*, 156 Iowa 201). In a policy covering accidental death, it might be necessary for the plaintiff to show that the insured met accidental death. Death caused by

risks excepted by the policy is not covered by any insurance policy. Proofs of death provided for in the policy usually may be used as evidence of the cause of death, but they are not conclusive. *See* Proof of death.

Ceased by death. *See* Proof of death; Terminations.

Ceased by expiration. A term policy ends or "ceases" at the end of the term period, say five or ten years. An endowment policy ceases in the event of prior death or upon the maturity of the endowment period. A whole life policy is said to cease at age 96, when under the American Experience Table of Mortality all persons are presumed to be dead. *See* Terminations.

Ceased by lapsation. *See* Lapses; Terminations.

Ceased by maturity. *See* Maturity of policy; Terminations.

Ceased by surrender. *See* Cash surrender value; Nonforfeiture options.

Center of influence. One method used in looking for prospects for insurance is called the "center of influence" plan. Under this scheme, the insurance solicitor secures the interest and good will of individuals who will help him locate desirable prospects. Each one of these prospects may in turn become another "center of influence," thus developing an ever-expanding circle of prospects. There are numerous ways in which centers of influence can be built up. Some of these influential contracts may be developed through the following: (1) church connections; (2) banking relationships; (3) doctors; and (4) present clients. *See* Cold canvass; Endless chain.

Certificate of authorization. The insurance laws of the state may specify that no individual or corporation may transact insurance business within the state until a certificate is obtained showing that the individual or company has fulfilled all the legal requirements and is authorized by the commissioner of insurance to issue the type of insurance described in the certificate. Such certificate must bear the official seal of the commissioner. In New York, for example, the certificate may be denied if, in the judgment of the commissioner, the refusal will promote the best interests of all the people of the state. *See* Supervision and regulation.

Certificate of compliance. Upon the filing of each of its annual statements the insurance department in many states issues to each company a certificate that it has complied with the laws of the state. Such a certificate is also issued to each newly organized company. The certificate of compliance generally contains a statement of the amounts of paid-up capital stock, if any, assets, liabilities, income and expenditures for the preceding year as shown by the annual statement. In Ohio a copy of the certificate of compliance must be filed with the county recorder in any county in which it has an agency.

Certificate of membership. *See* Benefit certificate.

Change in age. *See* Age change.

Change of address. The correct address is essential in ordinary life insurance for premium notices. In industrial life insurance the home office does not need to have up-to-date addresses inasmuch as this problem is handled under the debit system. *See* Address of policyholder.

Change of age savings. Insurance premiums are determined in ordinary life insurance by the age at nearest birthday. Although the increase in rates for one year of age appears insignificant at first glance, the total will amount to a considerable sum if accumulated at interest over the period of the life insurance contract or

over the life expectancy of the insured.

By securing life insurance protection before the age change takes place and the higher rate becomes effective, the insured saves this additional cost. Many tables have been prepared to show the change-of-age difference or savings. The savings can be calculated from the rate book with the use of a compound interest table that shows the accumulation of one dollar per annum paid in advance. For example, if the insured is 35 years of age his life expectancy is 32 years. On a whole life policy the difference in the premium at age 35 and age 36 is, say, 77 cents as shown in the rate manuals of some companies. At four per cent interest a dollar per year will accumulate to $65.21 in 32 years. Multiply 77 cents by $65.21, and a saving of $50.21 is made by the policyholder, enough to pay premiums for more than two years.

Sales are made with least resistance when prices are rising. The life insurance salesman is in the peculiarly advantageous position of always being able to say to his prospect that the protection offered today will cost more if its purchase is delayed.

Since insurance rates are determined by age at nearest birthday, many salesmen follow the practice of calling upon their present policyowners five or five and one-half months after their birthdays, just before the increase in their insurance rates becomes effective. Although the increase in rates for one year of age appears insignificant when only one year's payment is considered, few people realize what this total will amount to if accumulated at interest over the period of the life insurance contract or over the life expectancy of the applicant.

By securing life insurance protection before an applicant's change in rate becomes effective, besides saving the additional cost, there is also enjoyed the satisfaction of being protected for a longer period than if purchase is delayed.

The following tables have been prepared, therefore, to show the change-of-age difference on the whole life and 20-payment life contracts. There is also shown the total accumulated value of this difference at five per cent interest assuming a normal expectancy on the whole life and the remainder of the premium-paying period on the 20-payment life contract.

CHANGE OF AGE SAVINGS
Whole Life—$1000

Age	Rate	Increase	Expectancy	Savings plus compound interest
15	$12.55	$0.26	46	$46.05
20	14.02	.34	42	48.28
25	15.89	.42	39	50.32
30	18.26	.57	35	54.06
35	21.45	.77	32	60.88
40	25.85	1.03	28	63.16
45	31.74	1.35	25	67 65
50	39.47	1.78	21	66.76
55	49.68	2.44	17	66.20
60	63.60	3.30	14	67.91
65	82.58			

CHANGE OF AGE SAVINGS
20 Payment Life—$1000

Age	Rate	Increase	Expectancy	Savings plus compound interest
15	$21.17	$0.31	20	$10.76
20	22.89	.37	20	12.85
25	24.90	.48	20	16.67
30	27.45	.59	20	20.48
35	30.62	.76	20	26.39
40	34.82	.95	20	32.98
45	40.10	1.20	20	41.66
50	46.89	1.55	20	53.81
55	55.75	2.05	20	71.17
60	67.64	2.88	20	99.99
65	84.47			

Change of beneficiary. A provision is contained in life insurance policies which states that the beneficiary

named under the contract may be changed at will, if the right has been reserved, by the policyholder upon written request to the company. The following is typical of the policy provision:

> The Insured may, from time to time, change the beneficiary unless otherwise provided herein or by indorsement hereon. The interest of the new beneficiary shall be subject to the rights of any then existing assignee. An assignee cannot change the beneficiary. Every change of beneficiary must be made by written notice to the Company at its Home Office accompanied by this Policy for indorsement of the change hereon by the Company, and unless so indorsed the change shall not take effect. After such indorsement the change will relate back to and take effect as of the date said written notice of change was signed, whether the Insured be living at the time of such indorsement or not, but without prejudice to the Company on account of any payment made by it before receipt of such written notice at its Home Office.

See Beneficiary; Contingent beneficiary; Irrevocable beneficiary.

Change of interest. *See* Assignment of policy.

Change of occupation. Many insurance companies print tables of occupational ratings in their rate manuals. Some of these occupations are written at standard rates; others at extra premiums; and some occupational risks are not accepted on any basis. If the applicant is engaged in an unfavorable occupation, an occupational blank is sometimes required with the application.

If the policyholder changes from an unfavorable to a favorable occupation, companies will remove the extra premium charged to the unfavorable occupation. Usually, there must be furnished evidence to the company that for a year the insured has been engaged solely in a favorable occupation. In some cases, the company may require a satisfactory medical examination in order to show that the previous occupation did not impair the insured's health. *See* Occupational restrictions.

Change of policy form. Many changes take place in connection with life insurance such as beneficiaries, names, addresses, and ages. Sometimes, too, the policyholder changes his policy to a lower-premium plan; then again to a higher-premium form. Some companies require evidence of insurability if the policy is changed to a lower-premium basis.

Sometimes the change of policy form will be made as of the same date of issue as the original contract. This adjustment gives the policyholder the benefit of the lower-premium rate. Again, the change may be made on the basis of premiums at the attained age when the change occurs. An example of a change to a lower-premium form is a change from an endowment policy to a whole life policy. Such a change retains the same amount of protection but reduces the savings element. On the other hand, a change to a higher-premium plan increases the investment elements and makes available, if necessary, higher cash values. *See* Forms of policies.

Changes in policy. Life insurance policies contain provisions that prohibit an agent from waiving, altering, or changing in any manner the provisions of a life insurance policy. Changes in policies may be made, however, by rider or endorsement signed by the policyholder and by an authorized officer of the insurance company. *See* Agent's power to waive policy provisions; Limitations of agents' authority.

Charge. *See* Surrender charge.

Charter. In the early days, before incorporation laws had been enacted by

the states, a special act of a legislature was necessary for the organization of an insurance company. Sometimes this special act of the legislature has been referred to as the "charter" of the life insurance company.

Today, insurance companies are organized under the special provisions of the insurance laws of the various states. In the process of organization the people involved draw up a charter. The following is not an exhaustive list, but it indicates some of the most important items covered in such a charter: (1) company name; (2) location; (3) types of business; (4) capital, if any; (5) form of organization; (6) powers. *See* Bylaws.

Chartered Life Underwriter. The C. L. U. is a professional designation conferred by the American College of Life Underwriters. This title is granted to those who qualify through the satisfactory completion of comprehensive examinations as well as because of successful experience in life insurance sales activities and desirable personal characteristics. For detailed information on the C. L. U. designation see publications of the American College of Life Underwriters.

Child insurance. *See* Juvenile insurance.

Child's endowment. This is a life policy issued on the life of a person under age. Sometimes such endowments are taken out to mature when the child reaches the age of attending school. *See* Endowment insurance.

Circulars. Most state laws prohibit misrepresentations in circulars. These misrepresentations relate to such matters as: (1) terms of policy; (2) benefits or advantages promised; (3) misleading estimates of dividends; and (4) incomplete comparisons tending to induce lapse, forfeit, change, or surrender of policy; (5) funds or assets; and (6) subscribed capital. *See* Advertisements.

Claimant. The person who makes a claim under a contract of insurance is called the *claimant.* Under many forms of insurance, the claimant is the policyholder. In life insurance, the claimant is usually the beneficiary. In certain forms of liability insurance, the claimant is a so-called third party.

Claim of creditor. A creditor is said to have an insurable interest in the life of a debtor and may properly make a claim for the proceeds of a policy which has been taken out to secure payment of the debt. A very interesting phase of this subject is the rights of creditors to life insurance policies. Many complex situations exist and numerous court decisions have been rendered. There is a general tendency to guard the proceeds of life policies from creditors, especially if these policies are intended for the family of the assured. For illustration, the laws of Ohio provide that upon the death of the insured, while the policy is in effect, the proceeds become the property of the beneficiary and are exempt from the claims of creditors of the insured except that, subject to the statute of limitations, the amount of any premiums paid in fraud of creditors, with interest thereon, shall inure to their benefit from the proceeds, provided written notice is given to the company by the creditor, specifying the amount of his claim and the premiums which he alleges have been so fraudulently paid. *See* Beneficiary.

Claims. The term *claim* is used to designate the amount payable under a policy of life insurance. A claim for payment of the proceeds of the policy may be made because of death or upon the maturity of an endowment policy or because of disability

benefits. A claim requires the customary proofs and evidence of the identity of the insured and evidence of the interest of the claimant. *See* Proof of Death.

Classification of applicants. *See* Underwriting.

Class "3" disability table. This is a table, published in a report of the Actuarial Society of America in 1926, which was put into use for premiums and reserves on policies providing a monthly income in event of permanent and total disability. The table covers specifically those policies which carried a ninety-day qualifying period before the insured was entitled to benefits. Neither Hunter's Table nor this table made the rates high enough, as subsequent experience demonstrated. *See* Hunter's Table.

Clean-up fund. This is a policy of life insurance intended primarily to take care of the expenses of the last illness, funeral expenses, costs of settling the estate, current debts, and the like. Most of these expenses have increased in recent years. The amount of ready cash that must be on hand today to "clean-up" these expenses is greater than ever before. Such a policy is usually made payable in a cash lump sum amount. *See* Program idea.

Cognovit note. In the common law a cognovit note is a written acknowledgment by the defendant of the justice of the plaintiff's claim. A note signed by the applicant for the first premium is sometimes referred to as a cognovit note. Generally, the agent who accepts such a note, often endorsing same, is held responsible for the interim (preliminary) term premium for the period covered by the note in case the insured fails to pay the note. *See* Agent's note; Interim term.

Coinsurance. *See* Reinsurance.

Cold canvass. In looking for prospects for insurance, one method used is called the *cold canvass.* Essentially, this is simply approaching strangers, that is, people of whom you know nothing, and asking them to buy insurance. One of the difficulties of the cold canvass is that you have no previous information about your prospect on which to base a sales talk or to adjust insurance protection to fit the stranger's needs. The cold canvass method can be operated either by selling a certain class of prospects whose interests are quite alike (such as lawyers or doctors), or by specializing on one type of insurance policy and approaching individuals who appear to need that particular form of protection. *See* Endless chain; Center of influence.

Collateral loans. Life insurance policies may be pledged as collateral for loans. Under the terms of the loan provisions of the policy, the insurance company will make a loan to the policyholder on the "sole security" of the policy. Collateral loans, secured by bonds and stocks, are sometimes found in the annual statements of the investments of life insurance companies. Such assets are not a very large portion of the investments of life insurance companies today. *See* Assignment of policy; Loans.

Collection of premiums. *See* Payment of premiums.

Collective insurance. *See* Group life insurance; Group pensions.

College education insurance. *See* Educational insurance.

Combined Annuity Mortality Table. The lack of an appropriate American mortality table for the calculation of premium rates and reserves for deferred group annuities did not attract much attention until numerous life insurance companies became interested in deferred annuities for group

retirement plans and like agreements written in connection with group insurance. Recognizing that this problem necessitated careful analysis, the Superintendent of Insurance of New York State suggested the appointment of a committee of actuaries to determine a suitable table.

The problem was to secure a satisfactory table for the younger and intermediate ages, since the experience reflected in the American Annuitants' Table was nearly all at the older ages and was considered appropriate for these ages. It was finally decided that the mortality of the younger and intermediate ages was best represented by Cammack's Clerical Mortality Table, which showed a low rate of mortality for the working years of life. Briefly, this table was derived from the true experience of group policies based on the clerical classification (group 4) or the super-standard class for the years 1923 to 1926, and the exposed risks included 663,511 life years. The actuaries, Craig and Henderson, formed an empirical table on this basis up to 50 years, and thereafter the mortality rate was arranged to reflect closely that of the American Annuitants' Table at the older years. This graduation process for the years 60 and over was carried out so that the immediate annuity value at four per cent for age 60 approximated that of the American Annuitants' Ultimate Table.

This mortality rate so calculated was applicable for male lives. The actuaries suggested a practical method of using the same table for females after decreasing the age four years. In other words, the probability of death of a male 31 years of age was assumed to be applicable for a female 35 years of age. This Combined Annuity Table commenced at age 6 for males and age 10 for females, but a recent extension of this table to the younger years has been made.

Although the Combined Annuity Table was first constructed as a suitable standard for valuing group annuities, it was found satisfactory for the valuation of individual annuities. New York State adopted this table at four per cent interest as the minimum standard for the valuation of all annuity contracts, individual as well as group, written on and after January 1, 1930. Other states also made this table the approved basis of valuation for annuities; it was adopted by the life insurance companies for their annuity business. *See* McClintock Table; American Annuitants' Table; Standard Annuity Table.

Combined Experience Table. *See* Actuaries' or Combined Mortality Table; Seventeen Offices Table.

Commerce. *See* Insurance not commerce.

Commissioner of Insurance. *See* Superintendent of insurance.

Commissioners' reserve valuation method. This is the provision for a new minimum reserve system as developed by the report of the National Association of Insurance Commissioners. The report, which was adopted by the Commissioners in June, 1942, recommended uniform legislation in all the states of a Standard Valuation Law that will require the use of the new mortality table. Already many states have enacted this new standard valuation law and it is expected that all states will have passed the legislation before the end of 1948. The enactment of this Commissioners' Reserve Valuation Method with interest at 3½ per cent, using the 1941 Commissioners' Standard Ordinary Mortality Table, will remove the various other systems, such as the Illinois Standard, Ohio

Standard, New Jersey, and other reserve systems intended to take care of the burden of expense in the first years of the policy.

Provision for a modification of the net level premium system has been allowed by law, under some special method, in the laws of the various states. This new plan fixes on a more uniform basis the minimum aggregate amount of a company's reserve. Like the other several methods the new method is intended to help the companies handle the expenses in the first year of policies.

The text of the proposed Standard Reserve Valuation Law, somewhat technical perhaps, defines the method of valuation in section four of the law as follows:

4. Reserves according to the Commissioners' reserve valuation method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value, at the date of valuation, of such future guaranteed benefits provided for by such policies, over the then present value of any future modified net premiums therefor. The modified net premiums for any such policy shall be such uniform percentage of the respective contract premiums for such benefits that the present value, at the date of issue of the policy, of all such modified net premiums shall be equal to the sum of the then present value of such benefits provided for by the policy and the excess of (a) over (b), as follows:

(a) A net-level-annual premium equal to the present value, at the date of issue, of such benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of such policy on which a premium falls due; provided, however, that such net-level-annual premium shall not exceed the net-level-annual premium on the 19-year-premium whole-life plan for insurance of the same amount at an age 1 year higher than the age at issue of such policy.

(b) A net 1-year term premium for such benefits provided for in the first policy year.

Reserves according to the Commissioners' reserve valuation method for (1) life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums, (2) annuity and pure endowment contracts, (3) disability and accidental-death benefits in all policies and contracts, and (4) all other benefits, except life insurance and endowment benefits in life insurance policies, shall be calculated by a method consistent with the principles of the preceding paragraph."

An examination of this method and the Illinois Standard show that the two systems are almost identical or differ only slightly, and this identity is lost chiefly on the valuation of certain long-term endowment policies. It is believed, according to the report that developed this new method, that this plan plus the new mortality table will remove much of the misunderstanding existing in the public mind about the cost of insurance, and would make it possible for the companies to adjust more equitably the distribution of the cost of insurance among the various groups of policyholders.

Commissioners' Standard Ordinary Mortality Table. This table was prepared under the direction of the National Association of Insurance Commissioners, and was reported by a committee in 1941. Some of the more significant facts about this table are: (1) It represents recent mortality but an arbitrary margin has been added to the table for a cushion of safety; (2) It is an ultimate table; (3) At the younger ages mortality rates are more favorable than other tables except the "Z" Table; (4) At the older ages the rates of mortality correspond closely to the American Men Table;

(5) For the middle ages the mortality rates in this table are slightly above those of the American Men Table. A more detailed comparison may be obtained by looking at the other tables found in this book.

The "Commissioners' 1941 Standard Ordinary Mortality," shown below, is now being put in use by many of the life insurance companies today.

COMMISSIONERS' STANDARD ORDINARY

Age	Number Living	Deaths Each Year	Deaths per 1,000	Expectancy, Years	% Living to 65	Age	Number Living	Deaths Each Year	Deaths per 1,000	Expectancy, Years	% Living to 65
1	1,000,000	5,770	5.77	62.76	57.79	51	800,910	10,628	13.27	20.64	72.15
2	994,230	4,116	4.14	62.12	58.12	52	790,282	11,301	14.30	19.91	73.12
3	990,114	3,347	3.38	61.37	58.37	53	778,981	12,020	15.43	19.19	74.18
4	986,767	2,950	2.99	60.58	58.56	54	766,961	12,770	16.65	18.48	75.35
5	983,817	2,715	2.76	59.76	58.74	55	754,191	13,560	17.98	17.78	76.62
6	981,102	2,561	2.61	58.92	58.90	56	740,631	14,390	19.43	17.10	78.03
7	978,541	2,417	2.47	58.08	59.05	57	726,241	15,251	21.00	16.43	79.57
8	976,124	2,255	2.31	57.22	59.20	58	710,990	16,147	22.71	15.77	81.28
9	973,869	2,065	2.12	56.35	59.34	59	694,843	17,072	24.57	15.13	83.17
10	971,804	1,914	1.97	55.47	59.46	60	677,771	18,022	26.59	14.50	85.26
11	969,890	1,852	1.91	54.58	59.58	61	659,749	18,988	28.78	13.88	87.59
12	968,038	1,859	1.92	53.68	59.70	62	640,761	19,979	31.18	13.27	90.19
13	966,179	1,913	1.98	52.78	59.81	63	620,782	20,958	33.79	12.69	93.09
14	964,266	1,996	2.07	51.89	59.93	64	599,824	21,942	36.58	12.11	96.34
15	962,270	2,069	2.15	50.99	60.05	65	577,882	22,907	39.64	11.55	100.00
16	960,201	2,103	2.19	50.10	60.18	66	554,975	23,842	42.96	11.01	
17	958,098	2,156	2.25	49.21	60.32	67	531,133	24,730	46.56	10.48	
18	955,942	2,199	2.30	48.32	60.45	68	506,403	25,553	50.46	9.97	
19	953,743	2,260	2.37	47.43	60.59	69	480,850	26,302	54.70	9.47	
20	951,483	2,312	2.43	46.54	60.73	70	454,548	26,955	59.30	8.99	
21	949,171	2,382	2.51	45.66	60.88	71	427,593	27,481	64.27	8.52	
22	946,789	2,452	2.59	44.77	61.04	72	400,112	27,872	69.66	8.08	
23	944,337	2,531	2.68	43.88	61.19	73	372,240	28,104	75.50	7.64	
24	941,806	2,609	2.77	43.00	61.36	74	344,136	28,154	81.81	7.23	
25	939,197	2,705	2.88	42.12	61.53	75	315,982	28,009	88.64	6.82	
26	936,492	2,800	2.99	41.24	61.71	76	287,973	27,651	96.02	6.44	
27	933,692	2,904	3.11	40.36	61.89	77	260,322	27,071	103.99	6.07	
28	930,788	3,025	3.25	39.49	62.09	78	233,251	26,262	112.59	5.72	
29	927,763	3,154	3.40	38.61	62.29	79	206,989	25,224	121.86	5.38	
30	924,609	3,292	3.56	37.74	62.50	80	181,765	23,966	131.85	5.06	
31	921,317	3,437	3.73	36.88	62.72	81	157,799	22,502	142.60	4.75	
32	917,880	3,598	3.92	36.01	62.96	82	135,297	20,857	154.16	4.46	
33	914,282	3,767	4.12	35.15	63.21	83	114,440	19,062	166.57	4.18	
34	910,515	3,961	4.35	34.29	63.47	84	95,378	17,157	179.88	3.91	
35	906,554	4,161	4.59	33.44	63.74	85	78,221	15,185	194.13	3.66	
36	902,393	4,386	4.86	32.59	64.04	86	63,036	13,198	209.37	3.42	
37	898,007	4,625	5.15	31.75	64.35	87	49,838	11,245	225.63	3.19	
38	893,382	4,878	5.46	30.91	64.68	88	38,593	9,378	243.00	2.98	
39	888,504	5,162	5.81	30.08	65.04	89	29,215	7,638	261.44	2.77	
40	883,342	5,459	6.18	29.25	65.42	90	21,577	6,063	280.99	2.58	
41	877,883	5,785	6.59	28.43	65.83	91	15,514	4,681	301.73	2.39	
42	872,098	6,131	7.03	27.62	66.26	92	10,833	3,506	323.64	2.21	
43	865,967	6,503	7.51	26.81	66.73	93	7,327	2,540	346.66	2.03	
44	859,464	6,910	8.04	26.01	67.24	94	4,787	1,776	371.00	1.84	
45	852,554	7,340	8.61	25.21	67.78	95	3,011	1,193	396.21	1.63	
46	845,214	7,801	9.23	24.43	68.37	96	1,818	813	447.19	1.37	
47	837,413	8,299	9.91	23.65	69.01	97	1,005	551	548.26	1.08	
48	829,114	8,822	10.64	22.88	69.70	98	454	329	724.67	.78	
49	820,292	9,392	11.45	22.12	70.45	99	125	125	1,000.00	.50	
50	810,900	9,990	12.32	21.37	71.26	..	......	......	.....	......	

This table was compiled from the experience of companies (1930–1940) except 1st 5 policy years, with margin added to "Deaths per 1,000" for mortality fluctuations.

Commissioners' values. *See* Convention values.

Commissions. Compensation to agents in life insurance is generally on the basis of the payment of a substantial proportion (25 to 50 per cent) of the first premium and then a series of smaller commissions (nine 5's) over a limited period. On a ten-year basis such a commission averages out to about 12 per cent of the premium income; over a twenty-year period the commission rate drops below eight per cent.

Much discussion has arisen in recent years on the subject of agents' compensation. The matter was considered in the investigation of the Temporary National Economic Committee. Various groups have advocated changes in the compensation system to agents. For a detailed study of agents' compensation plans, see the reports of the "Committee on Agents' Compensation" of the Life Insurance Sales Research Bureau. *See* Compensation of agents.

Committee of fifteen. After the Armstrong investigations in 1906, a number of the commissioners held a conference. At this conference (February, 1906) a committee was appointed to report on the problem of uniformity of life insurance regulation and supervision. This Committee of Fifteen made recommendations that followed closely those of the Armstrong Committee. One of the important recommendations of this Committee was in connection with the prescription by law of certain standard policy provisions. *See* Standard provisions.

Common disaster clause. In case a beneficiary should die before the insured, any rights that such beneficiary would possess revert to the insured unless a special clause provided otherwise. Also, unless an irrevocable beneficiary has been named, the policyholder is entitled to all the rights and privileges in the policy without the consent of the beneficiary.

But suppose both the insured and the beneficiary die at the same time in an automobile accident and a "common disaster" is established. What happens to the proceeds of the policy? A clause is sometimes attached to the policy which stipulates that the interest of the beneficiary does not take effect in case of the beneficiary's death within a specified time, say within 180 days, after the insured's death. This "common disaster" clause may be written to call for receipt of proof of beneficiary's death subsequent to that of the insured. Under this "common disaster" clause the proceeds of the policy will go to the insured's estate if no contingent beneficiary survives the beneficiary. *See* Contingent beneficiary.

Common stock. Life insurance companies are restricted by law as to their investments in stock. Generally no life insurance company may invest more than ten per cent of its total admitted assets in preferred stocks, nor more than ten per cent in common stocks. Moreover, it is usually provided that no company may invest more than five per cent of its total admitted assets in the stock or shares of any one corporation. An examination of the financial statements of life insurance companies will show that only a small percentage of their admitted assets are in preferred stocks, and an even smaller proportion in common stocks. *See* Assets and liabilities; Balance sheet.

Community benefits of insurance. *See* Uses of insurance.

Commuted value. Briefly, commuted value is the substitution of one thing for another equal thing, and in insurance it may amount to a series of

equal annual payments discounted and paid in one lump sum. In life insurance, commuted values arise in connection with installment payments under the policy provisions relating to settlement options or an annuity. It describes the process of calculating the present day lump sum value of a specified number of annuity payments or periodic installments. The idea of commuted values may be illustrated as follows: A $10,000 policy may be divided into 20 equal annual installments of $500 a year. However, the face value of $10,000 is not the "commuted value," for this is considerably less than $10,000 and the rate of interest determines the size of the sum that would be paid in one lump payment. For example, if $1,000 will provide 20 equal yearly payments of $65.28 each, then the total amount to be paid in 20 years, minus any dividends, equals the sum of $1,350. At the rate of three per cent interest, compounded yearly, the "commuted value" of $1,305 is just $1,000.

Company service representative. Any person, partnership, association, or corporation who or which acts on behalf of any company in the solicitation, inspection, or servicing of risks assumed or to be assumed by an insurance company is a company service representative. *See* Agent; Broker; Solicitor.

Compensation of agents. In ordinary life insurance the customary form of compensation has been a high first-year commission, say 50 per cent of the premium for the first year, and then renewal commissions of five per cent for nine years. Many criticisms of this method of compensation have been made such as the following: (1) It is based solely on production volume and does not take into account the agent's service to policyholders; (2) It forces upon the companies the problems of reserve valuation methods because of the high expenses in the first year of the policy; (3) It has resulted in a high turnover of agents and consequent wasteful expense to the companies; (4) It has often left the older agents without adequate retirement income for their later years.

In recent years much attention has been given to improvement in the methods of compensation for agents. Some of the items in this recognition of change have been: (1) better selection and more adequate training of agents; (2) recognition of the agent's advice and service to policyholders; (3) payment of compensation so as to equalize more evenly the earnings of the agent over his lifetime; (4) advances of salaries against commissions; (5) payment of salaries; (6) provision for retirement pensions to agents.

The method of compensation in industrial life insurance has been different from that in ordinary life insurance. Under existing contracts, agents in industrial life insurance are compensated for three activities: (1) a commission (first year and renewal) for selling new insurance; (2) a commission for the collection of debit premiums, including completing of reports and accounts; and (3) a conservation commission for servicing and conserving existing insurance.

Provisions in the laws of some states regulate the amount that can be paid to agents as compensation. *See* Commissions.

Competency. The question of "competency" arises in connection with both the insurer and the insured. In the early days in the development of life insurance individuals were allowed to be "competent" as underwriters, and some life insurance, mostly for a short period of time, was written by individuals. Nowadays, however, state laws make it illegal,

presumably on the wagering theory, for individuals to write life insurance. Corporations are permitted to write life insurance because of their permanency and financial responsibility. The competency of a corporation is regulated by the state laws and requirements of certificates of approval, of authority, of compliance, depending on the particular state.

Competency of the insured covers his legal capacity to enter into a contract. Incompetent persons are usually alien enemies and infants. Insurable interest also enters the problem of "competency" in life insurance. *See* Juvenile insurance; Insurable interest; Alien.

Complement of life. Complement of life is the difference between the present age and the last age in the mortality table. It will vary, therefore, with the different mortality tables. *See* Mortality tables; Expectation of life.

Complete annuity. An annuity policy that provides for a proportional payment of the regular income to be made to the estate at the death of the annuitant is called a *complete annuity* or an *apportionable annuity*. For example, under a complete annuity of the semiannual payment plan it may be agreed, in addition to providing the definite income to the annuitant at the end of each six months the annuitant survives, that a payment will be made to the estate upon the death of the annuitant of a sum proportionate to the time elapsed since the date of the last income payment and the date of death. In general, it may be said that on the average the value of a complete annuity is approximately greater than a similar annuity which is nonapportionable by the value of about one half of an installment due the annuitant at the time of death.

The pro rata payment to date of the death of the annuitant is not applicable to an annuity-due. Under such an agreement each payment becomes payable at the commencement of each interval that the annuitant lives to enter upon; therefore every payment made is for a succeeding income period. *See* Apportionable to date of death; Annuities classified.

Completion of insurance contract. *See* Applications for insurance; Attestation clause; Countersignature requirement; Payment of premiums.

Compliance certificate. *See* Certificate of compliance.

Compound discount. Most of the life insurance rate manuals publish two compound discount tables. One table shows the present value of one dollar due in a certain number of years at various interest rates. The other table shows the present value of one dollar per annum at the end of every year at various interest rates.

A portion of the "one dollar principal" table is as follows:

PRESENT VALUE OF ONE DOLLAR DUE IN A CERTAIN NUMBER OF YEARS

Years	2 Per Cent	2½ Per Cent	3 Per Cent	3½ Per Cent	4 Per Cent	4½ Per Cent	5 Per Cent	6 Per Cent
1	$ .9804	$ .9756	$ .9709	$ .9662	$ .9615	$ .9569	$ .9524	$ .9434
2	.9612	.9518	.9426	.9335	.9246	.9157	.9070	.8900
3	.9423	.9286	.9151	.9019	.8890	.8763	.8638	.8396
4	.9238	.9060	.8885	.8714	.8548	.8386	.8227	.7921
5	.9057	.8839	.8626	.8420	.8219	.8025	.7835	.7473
6	.8880	.8623	.8375	.8135	.7903	.7679	.7462	.7050
7	.8706	.8413	.8131	.7860	.7599	.7348	.7107	.6651
8	.8535	.8207	.7894	.7594	.7307	.7032	.6768	.6274
9	.8368	.8007	.7664	.7337	.7026	.6729	.6446	.5919
10	.8203	.7812	.7441	.7089	.6756	.6439	.6139	.5584

To find the present value of a given sum to be received at the end of any number of years at any of the rates of compound interest expressed in the above table, multiply the given amount by the present value of one dollar at the rate and for the number of years required, marking off as many decimals in the product as there are decimals in the multiplier and multiplicand.

A portion of the "one dollar per annum" table is given below:

PRESENT VALUE OF ONE DOLLAR PER ANNUM DUE AT THE END OF EACH YEAR

Years	3 Per Cent	3½ Per Cent	4 Per Cent	4½ Per Cent	5 Per Cent	6 Per Cent
1	$ .971	$ .966	$ .962	$ .957	$ .952	$ .943
2	1 914	1 900	1.886	1 873	1.859	1.833
3	2.829	2.802	2.775	2 749	2.723	2.673
4	3.717	3 673	3 630	3 588	3.546	3.465
5	4.580	4.515	4.452	4.390	4.330	4.212
6	5 417	5.329	5.242	5 158	5.076	4.917
7	6.230	6.115	6.002	5 893	5.786	5 582
8	7.020	6.874	6.733	6 596	6.463	6 210
9	7.786	7.608	7.435	7.269	7.108	6 802
10	8.530	8.317	8.111	7.913	7.722	7.360

To find the present value of a given sum to be received at the end of each year during any number of years, at any of the rates of compound interest expressed in the above table, multiply the given sum to be received at the end of each year by the present value of one dollar per annum, at the rate and for the number of years required, marking off as many decimals in the product as there are decimals in the multiplier and multiplicand.

Compound interest. Briefly, compound interest is interest upon interest, thus: when an amount of money due as interest is added to the principal and then bears interest, it is compound interest. Hence, one essential difference between simple interest and compound interest is that under simple interest the original principal remains always unchanged, whereas under compound interest the principal is augmented.

Interest is a very important factor in all forms of insurance, and it is quite essential in calculating the premium on most of the insurance contracts. This is particularly true of life insurance because of the rather long period over which most of the contracts extend. The essential factors to consider in computing interest are principal, time, and rate.

Not only the amount that a dollar invested, say at 3½ per cent, would be worth in a period of fifteen or twenty years, but in the same way the present value of a sum due in the future, is all important. For example, a dollar due in one year's time at 3½ per cent interest is worth approximately 96½ cents payable at once, and this is called the present value.

Elaborate tables have been worked out showing the amount to which one dollar invested at interest will increase in a number of years, and also showing the present value for one dollar payable at the end of any given period. *See* Amount of one dollar; Compound discount.

Compound survivorship annuity. This annuity is one involving a compound condition of survivorship before the annuity becomes payable. For example, assume an annuity payable to the annuitant after the death of the survivor of the daughter and the son only if the daughter is the survivor of

the son. The annuitant's coming into possession of such an annuity is contingent upon the happening of the double event—the death of the son before the daughter followed by the death of the daughter before the annuitant.

Concealment. *See* Misrepresentation.

Concessions. Concessions are "additional benefits" that have been granted to new policyholders but at the same time made available to old policyholders whose policies did not contain these new benefits when originally written. When more liberal provisions that are found in the later issued policies are also extended to the older issued policies, these grants of benefits, though not required, are in the nature of "concessions" to the old policyholders.

Conditional assignment. A conditional assignment, sometimes called a collateral assignment, is generally the type of assignment used to secure a loan. Such an assignment guarantees only a stipulated amount or a part only of the whole when it is written as an "assignment as interest may appear." When the debt has been paid, the condition for the assignment, the assignment is in effect canceled although the form of the assignment may be absolute and not collateral. *See* Assignment of policy; Absolute assignment.

Conditions of policy. In a general way, the conditions of a policy of insurance include: (1) promises of the insurer; (2) obligations assumed by the insured; (3) rights of the insurance company under the contract; and (4) rights of the policyholder. Sometimes the term *conditions of policy* is used in a limited sense to explain the limitations, restrictions, or exclusions of a policy. Most policies do not make specific distinctions among provisions, conditions, benefits, and privileges.

The insuring clause is usually made subject to the agreements specified in the printed conditions of the policy and such other conditions and stipulations as may be properly added to the contract. The rule has been asserted that conditions and stipulations printed on the back of the insurance policy may not be considered as part of the policy or binding on the assured. Insurance policies, however, generally specify that the conditions printed on the back of the policy are made a part of the contract. For example, the following is often found on the front page of a life insurance policy:

> This policy is issued and accepted subject to all the conditions, benefits and privileges described on the subsequent pages hereof, which are hereby made a part of this policy.

Conformity with law. Conformity with the statutes of the state in which they are delivered is required of all life insurance contracts. Because of the fact that requirements vary somewhat as between the states, the policy often contains a provision notifying the insured that the policy will conform to the legal requirements of his state in the event there appears to be any conflict between the provisions of the policy and the interpretation of the law. Such a policy usually reads: "Any and all provisions of the policy which are in conflict with any law to which the policy is subject are understood, declared, and acknowledged to be amended to conform thereto." *See* General policy provisions.

Connecticut savings bank insurance. *See* Savings bank insurance.

Consanguinity. *Consanguinity* means blood relationship. Sometimes, consanguinity is an important factor in determining the right to proceeds under a life insurance policy. *See* Insurable interest.

Consent of insured. Statutes have been enacted in some states prohibiting the right of the company to issue a policy of life insurance without the consent of the insured. Generally speaking, however, a wife may take a policy of insurance upon the life or health of her husband. Employers may carry group insurance on their employees collectively. *See* Insurable interest.

Conservation work. Conservation in life insurance deals chiefly with prevention of lapses and maintaining persistency on the part of the insured in the payment of premiums. Other types of conservation, curative in nature, may include: (1) reinstatement of lapsed policies; (2) adjustments of the insurance program to meet changing financial conditions of the policyholder. Conservation of a "preventive nature" may be helped by selling the right type of policy in the beginning. The health and nursing service of some companies may be included in the conservation work program.

Consideration. The price, motive, or inducement of a life insurance contract is the "consideration" which makes it legally binding. A typical consideration clause in a life insurance policy reads as follows:

> This policy is issued in consideration of the application therefore, a copy of which is hereto attached and made a part hereof, and of the payment of premiums as above specified. The first year's insurance is term insurance purchased by the whole or part of the premium to be received during the first policy year.

Consulting actuary. Such an actuary is not employed solely by one insurance company but may give advice on actuarial problems to any company or individual who desires his services. Actuaries of this type are sometimes referred to as "free lance" actuaries. Their services are of a professional type and available to individuals or concerns willing to pay the "fees" charged. *See* Actuary.

Contestable period. *See* Incontestable clause.

Contingency fund. This type of a fund, sometimes called a *general contingency fund,* can be made up from the surplus payments of policyholders and the various investment profits of the business. Such a fund is usually for the purpose of meeting unforeseen contingencies and fluctuations in experience. Sometimes more than one contingency reserve fund is set up, such as investment contingency reserve, war contingency fund, reserve for mortgages, mortality fluctuation fund, additional reserve for disability benefits. These funds are "shock absorbers" devised to stabilize the operations of a company in times of temporary changes. Just how much money should be in such funds depends on the size of a company, the underwriting policy it follows, and the business judgment of its management. *See* Surplus fund; Distribution of surplus.

Contingency reserve. In the life insurance business, especially in the practices of mutual companies, all the funds that constitute the surplus may be placed in what is called the *contingency reserve fund.* The contingency reserve fund may, however, be divided into a number of subordinate funds. Some of the divisions of the contingency fund can be made as follows: (1) suspended mortality fund, out of which returns are made to policyholders through a saving in mortality; (2) real estate depreciation and security fluctuation fund; (3) dividend and expense equalization fund, to take care of the expenses of placing new business on the books. *See* Contingency fund.

Contingency surplus. A *contingency surplus* is an extra fund or margin of safety frequently termed a *contingency reserve*. *See* Surplus fund; Contingency reserve; Contingency fund.

Contingent annuity. *See* Annuities classified.

Contingent beneficiary. The contingent beneficiary is the person (or persons) to whom the death benefit is paid in event the primary beneficiary is not then alive. In most policies issued to males, wives are named as death or primary beneficiaries and children as contingent beneficiaries. If contingent beneficiaries are not named, expensive court costs may be incurred and proceeds of policies may go to persons other than those the insured would select.

When the payments on a life insurance policy are made on some installment plan, the contingent beneficiary may receive the unpaid balance of installments in the event of the primary beneficiary's dying subsequently to the policyholder but before receiving all of the monthly payments guaranteed. *See* Beneficiary.

Contingent policy. Under contingent policies, or annuity contracts, payment is made or stopped only if a person dies and another continues to live, or some other particular happening occurs. For example, a survivorship annuity is payable to a designated person, beginning at the death of the insured. A contingent annuity terminates its payments upon the death of a designated person other than the annuitant, upon the marriage of the annuitant, or upon the inheritance of an estate by the annuitant. A contingent annuity may prove to be a *perpetual annuity*, so-called in case the event stipulated to occur that would cancel the annuity payments never happens. *See* Joint and survivor annuity.

Continuance options. Some life insurance policies provide that one type of contract may be continued on some other plan. For example, a policy may be continued on one of the three following options at the election of the insured: (1) full face amount as term insurance to 65th birthday; (2) an ordinary life policy for the face amount; (3) continuation of a policy for life at one-half the original face amount. Such policies provide tables showing the values of the continued amounts and premiums for these adjustments. If no option is elected by the insured before a specified time, one of the options becomes automatic.

Continued insurance. *See* Extended term insurance.

Continuous installments. Where a life insurance policy is made payable at death or maturity in a definite number of installments instead of a lump sum, it may be agreed that if the beneficiary should live to receive all the installment payments, similar installments will be continued for life. These payments are often called "equal annual installments for a certain period and continuous during the life of the individual payee." Sometimes, under the continuous installment settlement, in addition to a fixed number of periodical installments guaranteed whether the payee lives or dies, the insurance company will pay a deferred annuity beginning at the end of the installment certain period. *See* Optional modes of settlement.

Continuous policy. Certain forms of life and accident insurance include whole life policies and noncancelable accident and health insurance. Such forms have been called "perpetual policies" or "continuous policies."

In the field of property insurance, also, there are some policies that are issued for an unlimited period. The

usual perpetual policy covering property contains the date the insurance becomes effective but does not contain any date for the ending of the contract. Such perpetual policies covering property may be canceled at any time by either the company or the policyholder. For example, a parcel post policy and a registered mail policy may be continuous. The registered mail policy may specify "this policy is deemed continuous, but either party may cancel it by giving fifteen days written notice thereof to the other, but said cancellation shall be without prejudice to any risk then pending." These continuous policies provide for the payment of premiums in various ways. Provision may be made for the payment of the estimated premium subject to adjustment. The annual registered mail premium adjustment form provides for the payment of a provisional premium each year based upon the value of shipments during the preceding year. The parcel post open policy requires a premium of $100 to be paid annually and is subject to monthly reports and payment of additional premiums when required. Readjustments in rates for continuous policies may be made as conditions require.

Contract relations. Every agent of an insurance company has a written contract approved by the company or a general agent, a license issued by the state in which he solicits business, and a license from the municipality in which he works, if the municipal laws so require. The agency contract covers such items as: (1) rates of commission; (2) quotas; (3) premium collections; (4) authority limitations; (5) rebating. Some of these contract provisions are important because of the legal rules on agency. Responsibility for the acts of agents makes it essential that the agency contract limit some of the powers of the agent. *See* Agent's power to waive policy provisions.

Contribution plan. The contribution plan, in mutual life insurance, is a means of distributing the surplus or dividends each year to the policyholders, or of apportioning the gains or savings. The contribution of each policyholder to the surplus is the difference between the premium paid and the cost of maintaining the insurance. The idea underlying the plan is that dividends are credited as they are contributed, that is to say, all dividends arising from excess interest over the amount required to maintain the reserve will be credited in proportion to the reserve. Classes of policies with large reserves will contribute more to the surplus through interest earnings than those with small reserves. Moreover, savings from mortality and savings in loading expenses are taken into consideration in distributing the dividends. These are the factors that build up the surplus, and they are the sources that are taken into consideration in making the dividend allotment under the contribution plan.

Under the so-called "three factor system," the dividend is made up of these three sources: (1) mortality savings; (2) loading profit; and (3) excess interest. Under the "two factor system," the profit from mortality is not considered as a separate factor; only interest profit and loading profit are taken into account. *See* Distribution of surplus.

Control of policy. The term *control of policy* is used in at least two different ways in contracts of insurance. In juvenile insurance the control of the policy is usually placed in the hands of the premium-payer or applicant as the following policy provision shows:

It is understood and agreed that this contract is made with the Applicant and that until the Insured has attained legal age (twenty-one years), the Applicant shall have the right, during his (or her) lifetime, to receive every benefit, except the death benefit, and exercise every right and privilege conferred by or referred to in this policy without the consent or joinder of the Insured or any beneficiary. In event of the death of the Applicant before the Insured shall have attained legal age, said rights and privileges (other than the right to change the beneficiary) shall, until the Insured shall have attained legal age, vest in and be exercised by the living parent or parents of the Insured who may be primary beneficiary or beneficiaries of record at the date of the death of the Applicant; provided, that if there be no living parent who is a primary beneficiary under this policy, or upon the subsequent death of the survivor of such parent beneficiary or beneficiaries before the Insured shall have attained legal age, said rights and privileges (other than the right to change the beneficiary) shall vest in and be exercised by the legally appointed guardian of the Insured until the Insured shall have attained legal age. It is further understood and agreed that after the Insured shall have attained legal age, the Insured shall have the right to receive every benefit and exercise every right and privilege conferred by or referred to in this policy, including the right to change or name a beneficiary, without the consent or joinder of the Applicant or any beneficiary.

In another instance the control of the policy refers to the conditions in a policy where the insured has reserved the right to change the beneficiary. In this case the policy stipulates:

If the Insured has reserved the right to change the beneficiary under this policy, he may, without the consent of any beneficiary, exercise any right, enjoy every privilege and receive every benefit conferred upon the Insured by this policy, expressly including the rights of loan and surrender, and to terminate, surrender or cancel and release this policy for any reason whatsoever.

If the Insured has not reserved the right to change the beneficiary, all benefits under this policy will vest in the Insured and beneficiary jointly, subject to the interest of any valid assignee.

Convention blank. A convention blank is a form of statement upon which insurance companies are required to make reports to the various state insurance departments. It is called a "convention blank" because some years ago the state insurance commissioners agreed at their national convention to adopt a uniform blank which the insurance companies would be required to fill out and file with the state insurance departments. The purpose of this so-called convention blank is to secure an annual financial statement of the insurance companies and other pertinent information so as to enable the state insurance departments to check up on the financial status of each company and also to furnish authoritative information that may be made available to policyholders relative to the financial condition of the insurance companies. *See* Annual statement.

Convention values. The laws in most states require that insurance companies report nonamortizable securities at market values. During certain periods of poor business and security conditions, especially from 1917 to 1921 and from 1931 to 1932, the National Association of Insurance Commissioners has authorized the use of an average price based on the normal range of the market in place of actual market values. This average price range figure has placed somewhat higher values in an arbitrary manner on securities than the actual market prices, but is justified on the basis

of the long range view of life insurance company investment values. This technique has been variously called "commissioners' values" or "convention values."

Conversion option retirement annuity. A unique feature embodied in some retirement annuity contracts, though not in all, is the privilege of conversion to a life insurance policy. Where this feature is included, the retirement annuity contract allows the annuitant the right to exchange the annuity contract as of the original date of purchase for a premium-paying life insurance policy on the ordinary life, limited payment life, or endowment plan in use by the company.

The usual eligibility requirements for this conversion may be briefly summarized as follows: (1) the annuity contract must be in full force prior to the exchange or conversion; (2) the exchange must be made prior to the due date of the first annuity payment; (3) the company must be furnished with satisfactory evidence of insurability, including passing a prescribed medical examination; (4) the annuitant must also be eligible for the plan of insurance wanted in accordance with the company's rules, limits of age, and amount of insurance; and (5) all parties in interest must join in the request for the exchange or conversion.

Such a procedure entitles the policyholder to the same rate as if the insurance policy had been issued at the original age at the date of the issuance of the retirement annuity contract. Usually it is for an amount of insurance not greater than that which the annual premium for the contract would purchase under the plan applied for at the premium rates in use by the company at the date of issue. Premiums for any disability benefits are not included.

Some of the uses of this option in the retirement annuity may be briefly summarized as follows: (1) this annuity may be written on young children and upon reaching the age of ten they may apply for conversion of the contract into a life insurance policy; (2) it appeals to individuals who are uninsurable at the time of purchasing a retirement annuity but who look forward to the time when they may be eligible for insurance; (3) it permits an annuitant to start a fund which may be used for a retirement income or for some form of insurance if the annuitant later desires such insurance, such as for a man who marries or otherwise develops a new need for life insurance; and (4) it makes the contract and its accumulated reserves more flexible to suit the possible future needs of the annuitant.

Conversion value. The term *conversion value* arises in connection with the convertible term "life insurance policy." Under the privileges of this policy, the insured may convert or change his term policy to a more permanent form of protection, such as a whole life or an endowment policy. When this change is made, sometimes a small conversion value is allowed as a credit on the premium payment to be made on the new policy. Although as a rule no reserve is held against a term policy, the conversion value amounts to the acknowledgment of a small reserve.

Again, the term is used in the sense of a "conversion privilege." Such a privilege gives the insured the option of changing the plan of insurance. When a conversion is made it can be done usually without a medical re-examination with an adjustment in premiums and differences in dividends. The new policy may be issued at a premium rate for the attained age of the insured at the time

of conversion, or for a premium rate at the date of issue of the first policy, depending on company practices.

Group life insurance policies also contain a conversion privilege. Under this clause the insured is entitled to have issued to him, without evidence of insurability, an individual policy in place of his group certificate. Generally, such a conversion must be made within a specified period (sometimes 31 days) after termination of employment.

Convertible term insurance. Convertible term insurance refers to a term life policy contract which carries the right to exchange the term life policy for permanent life insurance at some future time without the necessity of undergoing another medical examination at the time of exchange. Typical convertible term life policies are written on a five-year or ten-year plan. The privilege of conversion may be taken in one of two ways: (1) the new policy will bear the date of the surrender of the term policy and premiums on the new contract will be based on the attained age of the assured; or (2) the new policy may bear the date of the original term contract, in which case the policyholder will be required to pay the difference between the premiums of the term and the new form, together with a stipulated rate of interest on the same.

Most insurance companies impose a time limit upon the right of conversion so as to avoid adverse selection. Generally, the term policy must be converted within two or three years before the expiration of the term policy. The following is a typical clause providing for the conversion of a five-year term policy:

While this policy is in force, it may at any time, upon application, be exchanged, without medical re-examination, for a level premium whole life or endowment policy for an amount of insurance not in excess of the amount of this policy.

The New Policy

(1) Shall bear the date of exchange and shall be issued at the regular premium for the then attained age of the insured, or

(2) Shall be dated back to the same date as this policy and be issued at the same age as this policy. In this case, payment must be made of the difference between the premiums already paid hereon, for an amount of insurance equaling that of the new policy, and those that would have been required under the new policy with interest at six per cent compounded annually.

The new policy shall be issued on any plan in use at the time of its date and at the then regular premium rate for the class in which the insured is now placed.

If this policy contains a double indemnity or permanent total disability provision, the new policy will be issued with such similar provisions, not more liberal than those contained herein, as may be elected from those customarily issued by the Company (at the date the new policy bears) with the plan of insurance taken.

Convertible term insurance serves the needs of the insuring public in no less than two ways. First, it provides protection for those who feel that they cannot at the present time pay for the other forms of insurance. Second, the convertible term policy can be taken until a more satisfactory plan of insurance protection is developed by the prospective policyholder. Agents find term policies a valuable part of their sales equipment because sometimes they are able to sell a term policy on account of the low premium rate, and this sale furnishes an entering wedge for the sale of more permanent protection later on. The value of early conversion must always be kept in mind. The following are some of the reasons for early conversion:

(1) Lower cost on other policies during remainder of assured's life.

(2) Longer duration of other policies.

(3) Higher loan values on other policies.

See Renewal term insurance; Term insurance.

Co-operative assessment company. The courts have generally held co-operative assessment companies to be mutual benefit associations, since they are not operated for profit. These companies are usually incorporated, but have no capital stock. Such companies, as a rule, are operated entirely for the benefit of their members without profit. In determining whether a company is a co-operative assessment company or a regular insurance company, the nature of the contract must be considered. In most instances, the chief source of the payments for death or injury comes from post-mortem assessments in the case of co-operative assessment companies. In addition, the laws of the state in which the company was organized should be considered in determining the character of the association. *See* Mutual Benefit Association.

Copartnership insurance. *See* Partnership insurance.

Corporation. A corporation is a group of individuals established by law, usually for a definite purpose. The corporation is continued by succession of members. It is an artificial person created by the law with a distinct name and legal entity. The acts of incorporation or charters determine the powers. *See* Insurance company; Corporation insurance.

Corporation insurance. Corporation insurance is insurance (as a rule) on the life of the president or of some other valuable officers of a corporation, the policy being made payable to the corporation in the event of the death of the officer. In other words, it is simply life insurance applied to the needs of a corporation. It is no different in principle from any other application of the various forms of life insurance.

The purposes of corporation insurance briefly are: (1) to facilitate the liquidation of a deceased stockholder's interest; (2) to protect the business against the loss of a valuable employee or key man; (3) to provide a means for establishing and strengthening credit; and (4) to establish reserves for definite purposes or contingencies. *See* Partnership insurance.

Correction of age. *See* Misstatement of age.

Cost of delay. *See* Difference in cost; Change of age savings.

Cost of insurance. *Cost of insurance* is a technical term used in connection with life insurance. It is the tabular mortality cost of carrying the amount at risk and might be called the *cost of production.* For example, the amount at risk multiplied by the number dying according to the table, divided by the number living at the beginning of the year, is called the cost of this insurance for the year. It is the sum of money which all must contribute toward the payment of death claims of the year so as to make up the difference between the face amount of the policies and the reserve of the policies becoming death claims. *See* Amount at risk; Net costs.

Countersignature requirement. In Illinois a broker may place his insurance only with or through a duly licensed resident agent of the company authorized to transact business in that state. Commissions may be paid to the broker if he meets this countersignature requirement. Only an agent has the authority to countersign insurance policies or the writ-

ten applications for policies. The statute requires that all policies of insurance or contracts of fidelity and suretyship covering property or risks in Illinois shall be issued only if policies or contracts or the written applications therefor shall have been countersigned by an Illinois agent of the issuing company. Many life insurance policies have a place on the face of the policy for a countersignature or an "attest" signature. *See* Attestation clause.

Coverage. *Coverage* is a word that is used frequently in place of *insurance* or *protection.* These terms, often used interchangeably, describe what the insurance company promises to do for the insured under the provisions and terms of the contract.

Coverage costs. Comparisons are sometimes made of the cost of coverage in different companies and under different plans of insurance. The most common comparison is between ordinary and industrial coverage costs. The New York Insurance Department, in its special report on Industrial Insurance in 1937, made the following statement and coverage cost comparisons:

> Industrial insurance and Ordinary insurance are fundamentally different in a number of respects; the more important differences will be discussed below. Because of these differences, any comparison of costs in the two branches must involve some assumptions and approximations and unless the resulting figures are carefully used they are apt to be misleading. In fact, it is quite difficult to present figures which will fully state the facts and which will at the same time be simple enough to be readily understood by the layman. However, in response to the widespread interest in this matter, some comparative figures are given here. The 20 Payment Life and 20 Year Endowment plans are alike in all four branches. It is also desired to have premiums as nearly comparable as possible. All figures in the following table are therefore gross annual premiums per thousand of insurance where Industrial premiums are taken at fifty-two times the weekly premium and the premiums in the other branches are taken at twelve times the monthly premium with normal double indemnity benefit.

GROSS ANNUAL PREMIUMS PER THOUSAND

Type of Policy		Industrial	Ordinary	Intermediate	Special Class
Life Plan	Age 20	$23.01	$19.20	$21.72	$25.80
	30	31.71	24 48	27.84	31.92
	40	44.83	33.48	37.92	43.68
	50	68.42	49 32	54.48	66.12
20 Payment Life	Age 20	33.77	29.64	32.16	37.32
	30	43.33	35.16	38.40	42.60
	40	54.17	43.44	47.88	52.32
	50	74.29	56.76	62.04	70.80
20 Year Endowment	Age 20	60.47	49.44	50 76	52.28
	30	63.41	51.12	52.68	54.36
	40	68.42	54.60	57.36	59.28
	50	81.25	63 00	67.20	73.44

Creditors. A creditor has an insurable interest in the life of a debtor as long as a debt exists. Such insurance may become speculative in nature if an insured cannot possibly pay off a debt. Some companies write policies that are called "creditor insurance" contracts.

Generally, policies made payable to a named beneficiary are free from an attachment by creditors of the insured. The laws in most states are very liberal in protecting the beneficiary from the claims of creditors. As a rule the creditors of the insured can attach a policy only: (1) if the premiums were paid to defraud a creditor; or (2) if the premiums were paid out of embezzled funds. *See* Insurable interest; Rights of beneficiary; Claims of creditors.

Cumulative bonus. *See* Bonus.

Curtate annuity. An annuity which is nonapportionable, that is, one that does not promise to the estate of the annuitant a pro rata payment of the income to the date of the death of the annuitant, is known as a *curtate*

annuity. Such an annuity may become a complete annuity if an agreement is added to the contract for the payment to the estate of a proportionate part of the payment to the moment of the death of the annuitant. The usual life annuity contract issued in the United States does not generally promise to the estate of the annuitant a proportional payment of the income to the date of the annuitant's death; but in some instances an annuity may be made apportionable upon the payment of an extra charge.

D

Daily cost of insurance. Some insurance agents have found it very helpful to be able to express the cost of a given policy as so much per day. For any policy a fairly close approximation (always on the safe side) may be made by figuring three cents a day for each $10 of annual premium. As an illustration: annual premium $50, daily cost 5 times 3 equals 15 cents. Allow another penny a day for each $3 over the even $10. Example: annual premium $86.50, 8 times 3 equals 24, add 2, result: 26 cents daily cost.

Date of birth. Individuals who make applications for life, accident, and health insurance are required to give their date of birth in the application for such insurance. In some cases, the exact year, month, and day must be given. Sometimes, this information is required again in the event of a claim being made under the policy. Information of this nature is often necessary to rate and underwrite the risk correctly. *See* Age of insured.

Date of policy. *See* Effective date of policy.

Dating back. Dating back is a practice in insurance whereby the effective date of the insurance is fixed at a time previous to the date of the application or when the insurance was first taken out. Some state laws say that no policy can be dated prior to the date of either the application or the examination. Dating back of a policy for not more than three months from the application is permitted in some sixteen states. Generally, a date-back must be requested in the application. *See* Antedating policy.

Days of grace. The period immediately following the date when a premium may be paid by a policyholder without penalty is known as the *days of grace.* *See* Grace period.

Dealer in intangibles. The term *dealer in intangibles* is sometimes defined in state insurance laws. Intangibles include such transactions as money lending, bills of exchange, drafts, acceptances, notes, mortgages, bonds, and stocks. Generally, life insurance is excluded in such a definition. Life insurance companies are designated as *financial institutions.* *See* Life insurance.

Death. Death is rarely defined in life insurance policies but means, briefly, the ceasing to live. The primary function of life insurance is to protect the families and dependents of an insured from pecuniary loss that is sustained because of his demise. Death is presumed from an absence of seven years or more by the common law. *See* Proof of death; Execution at the hands of justice; Absence of insured; Military or naval service.

Death beneficiary. The recipient, the primary beneficiary, of the death benefit payable in event of death of the insured, is often called the *death beneficiary.* The contingent beneficiary, as distinguished from the death beneficiary, receives the payments only in event of the death of the primary beneficiary.

Death benefit. The death benefit is generally the face amount of the policy or the guaranteed death benefit as provided in the policy, sometimes greater and sometimes less than the face amount. Such a benefit may be the income in an income policy or the various settlement options in a lump sum policy. Any dividend equities that may have been left with the company and any balance in a premium deposit fund are payable in addition. Loans and unpaid premiums are deducted from the amount otherwise due.

Death by accidental means. *See* Accidental death benefit.

Death by the hands of justice. *See* Execution at the hands of justice.

Death caused by beneficiary or assignee. On the basis of public policy, the courts have usually maintained that the death of the insured *intentionally* caused by the beneficiary or the assignee of the policy relieves the insurer from liability from claims on the part of the person causing the death. However, it has been held that the killing of the insured by the beneficiary while insane does not affect recovery under the contract (*Holdom v. Ancient Order of United Workmen,* 159 Ill. 619). The death of the insured resulting from unintentional carelessness or neglect or from an unlawful act of the beneficiary does not usually amount to such an exclusion. Generally, unless the policy provides that it becomes void in case of the killing of the insured by the beneficiary, the insurance company's liability is terminated by such killing only to the extent of the liability of such person causing the death of the insured. However, the policy usually may not be used for the benefit of the heirs of such beneficiary intentionally causing the death of the assured, or her or his assignees. Also, it has been held that the insurer is not liable if the beneficiary obtains the insurance with an intention to kill the insured and defraud the company. In this connection, it may be said that the burden of proof rests on the insurance company to prove that the beneficiary killed the policyholder intentionally.

Death claim. In life insurance, the death claim is simply a request for the amount due under the policy. When the death claim is paid, the obligations of the insurance company under the policy end. Sometimes, the death claim is referred to as the *death loss.*

In making a written report on a death claim, agents are often requested to give the following information: (1) policy number; (2) full name of deceased; (3) date of death; (4) place of death; (5) cause of death; and (6) if accidental, the cause and as many details as possible. The average age at death in many companies is approximately 57 years.

The following table shows the leading causes of death, classified according to percentages of the total number of death claims during the year, for a well-known company:

Cause of Death	*1944*	*Average 1930–1939*	*Average 1920–1929*
Circulatory Diseases (Heart Disease, Apoplexy, etc.)	44.0%	39.4%	30.5%
Cancer and Other Malignant Tumors	10.1	10.0	9.8
Digestive and Genito-Urinary Diseases (Diabetes, Nephritis, Ulcer, Liver, etc.)	6.7	10.5	14.8
Respiratory Diseases (Tuberculosis, Pneumonia, Influenza, etc.)	6.2	12.9	19.9
Violent Deaths (Automobile, Suicide, Aviation, etc., Exclusive of War Deaths)	5.2	11.9	11.1
War Deaths (Combat, Enemy Action, or War Service Accident)	10.3	—	—

Death loss. *See* Death claim.

Death of beneficiary. Problems arise in life insurance if the beneficiary should die before the insured or the

death of the beneficiary and the insured should occur simultaneously as in a so-called common disaster.

Some policies have provisions, such as the following, which provide for such emergencies.

> Unless otherwise provided herein or by indorsement hereon (a) if any revocably or irrevocably designated beneficiary shall die before the Insured the interest of such beneficiary shall vest in the Insured, or (b) if any such beneficiary shall die simultaneously with the Insured, or within fifteen days after the Insured but before due proof of the Insured's death shall have been received at the Home Office of the Company, payment of the proceeds of this Policy shall be made to the same payee or payees, and under the same terms and conditions, as provided for in this Policy in the event that said deceased beneficiary was not living at the death of the Insured.

See Common disaster clause.

Death rate of a company. The ratio of losses incurred during the year to the average amount of insurance in force is known as the *death rate* in life insurance practice.

In a mortality table, the column showing the death rate is the most important column. Crude death rates, such as those for populations without age classification, are apt to be very misleading. Tables are available which show deaths within stated periods for use in determining the number in a thousand that will survive each such period. *See* Mortality tables.

Death strain. *See* Tabular net cost.

Debenture policies. *See* High interest policies.

Debit system. The *debit* is a system used in the solicitation and servicing of industrial life insurance. Each agent is assigned a definite territory for the collection of premiums from house to house and this particular area is called a debit. The word *debit* may also be used to designate the amount of premiums the agent is charged with or "debited" by the company for collection each week. The record book in which the industrial agent keeps an account of his weekly premium collections is called a *debit book.* For a detailed account of the debit system see Davis, *Industrial Life Insurance.*

Declaration of assured. In many applications or proposals of insurance, the applicant often signs what may be termed a *set of declarations.* In substance, these declarations state that the statements and answers given by the insured are true and no information material to the risk has been withheld. The signing of such declarations by the insured has certain important consequences. Some of these are in effect as follows: (1) the declarations become the basis of the contract; (2) in some cases, statements by the policyholder are held to be warranties; and (3) the insured states that no fact material to the risk has been withheld or suppressed. These statements give the insurance company the right to repudiate the contract, in many cases, if the insured fails to comply with the declarations or if the declarations are found to be false. *See* Representation.

Declination. A life insurance company has the right to decline the acceptance of any insurance applied for in an application. Moreover, the company is not obliged to give any reason for the declination of the risk. Some applications contain a statement that the failure of the company to offer to deliver a policy as applied for within 60 days shall be deemed a rejection of the risk. Applicants are usually asked to state if any insurance has been declined in completing an application. *See* Selection of risks.

Decreasing annuity. Briefly, a *decreasing annuity* is one under which the payments are decreasing by arith-

metical or geometrical progression; an *increasing annuity* is one under which the payments are increasing by arithmetical or geometrical progression. Increasing and decreasing annuities, for example, may involve rather intricate complexities, and there may be various possible types: (1) the payments may increase a certain amount each year for the entire life of the annuitant; (2) the payments may increase or decrease a certain amount each year for a certain period from which time they may be uniform at that amount for the life of the annuitant; or (3) the payments under temporary life annuities may be issued with each payment up to the last of the limited payments increasing or decreasing a certain sum. The amount of the interval increase or decrease of the income payment may be different from the amount of the first payments.

The customary life annuity, however, provides equal payments of a specified number of dollars to the annuitant upon the first payment date and each successive interval during the term of the contract. *See* Annuity.

Decreasing face value. Decreasing face value is a provision in life insurance contracts which specifies that when the policyholder reaches a certain age the face of the policy will be reduced each year by a certain amount until a definite face value is reached that is then considered paid up. *See* Face of policy.

Decreasing premiums. The premiums paid on life insurance policies on the level premium method in the early years are higher, in relation to the risk mortality involved, than premiums paid in the later years. These premiums can be arranged so as to scale down in the later years until no more premiums are paid. *See* Level premium.

Default of premium. *See* Payment of premium.

Defaults on investments. Part of the security of life insurance depends on the investments of these companies. Defaults in bonds as to principal and interest have been relatively low. Defaults on real estate mortgages, both city and farm, have been higher. At the present time the situation in respect to defaults on investments may be described as satisfactory from the stability viewpoint of life insurance investments. For details on defaults on investments see study by Corliss L. Parry of the Business Research Bureau of the Metropolitan Life Insurance Company.

Deferment of a loan. Under the laws of many states the company is permitted to defer a policy loan for a maximum of six months. The law provides for the inclusion of this *delay clause* as a safeguard against unwarranted withdrawals by policyholders who may become unduly panicky in a time of general financial distress. The insurance company may specify in their policies a time limit less than six months, and some states (Massachusetts and Wisconsin) fix the time limit for delay of loan at 90 days.

Exceptions to the right to refuse to make a loan exist in the following situations: (1) where the loan is for the purpose of paying premiums on the policy; (2) the payment of any cash surrender value; or (3) the payment of any withdrawal of an amount remaining with the company under the provisions as to modes of settlement.

Deferred annuities. A deferred life annuity, in contrast to an immediate annuity, does not promise a life income to the annuitant until after a certain number of years have elapsed or the occurrence of some event, such as the death of the insured under a

survivorship annuity. Moreover, a deferred life annuity may be secured by annual (semiannual, quarterly, or monthly) premiums payable during the deferred years or by a single premium paid at the time the contract is written. The installment plan is very popular where it is necessary to provide a retirement income from current earnings.

The unique features embodied in the great variety of contracts offered by the life insurance companies make it somewhat difficult to describe briefly the scope and nature of such annuities. The most common forms are known as the deferred life annuity, annual and single premium forms; deferred refund life annuity, annual and single premium forms; survivorship annuity; extra deferred survivorship annuity; deferred joint life and survivorship annuity; and deferred last survivor and reversionary annuity.

A survivorship annuity may be arranged in some instances, usually as a supplement to life insurance, so that the income payments to the annuitant are deferred a certain number of years after the death of the insured. Under this extra deferred survivorship annuity the income to the annuitant is payable only in event the annuitant survives the insured by the stated waiting period, which may be five, ten, fifteen, or twenty years. If the annuitant dies before the insured or during the intervening waiting period, the premiums paid on the contract become the property of the insurer, nothing being payable under the contract. After the policy has been in force three full years, in case of default in premium payments, the reserve, if any, may be payable to the insured as a cash surrender value.

The deferred joint life and survivorship annuity resembles both the joint life and survivorship annuity and the single premium deferred annuity. It is similar to the joint life and survivorship annuity in that the income is payable during the joint lifetime of the named annuitants and thereafter for the continuance of the survivor without reduction in the amount of the annuity income. It is a deferred annuity because the income does not begin until some stipulated future date. The deferred period may be arranged to suit the desires of the annuitants, but it must be measured in years from the anniversary date of the contract. The duration of this period must be definitely fixed at the time the contract is issued.

Under such an annuity the company agrees, in consideration of the receipt of the required single premium, to pay a monthly or yearly income of a fixed amount, beginning at the specified maturity date, to continue during the joint lifetime of the named annuitants, and thereafter to continue the entire annuity to the survivor for the remainder of life. The contract usually terminates with the last payment preceding the death of the last surviving annuitant.

Frequently, no guarantee is made that at least the purchase price is to be returned to the estate in the case of the death of both annuitants before the annuity is entered upon or before payments totaling the purchase price have been made. The usual practice is that there is no cash surrender provision in this annuity. Such features make the cost relatively low. Important factors in the premium include the age of the annuitants at the date of purchasing the annuity, sex of the annuitants, period of deferment, and frequency of annuity payments.

The survivorship annuity, or *reversionary annuity* as it is sometimes

called, is a unique contract because it virtually represents a contract of life insurance on one person in order to provide a life annuity for another person. The party upon whose death the annuity payments begin is called the *insured* or *nominator*, and the person to whom the annuity is payable thereafter for life is known as the *beneficiary* or *annuitant*. In contrast to other deferred annuities, the income under this contract is deferred until the failure of the life insured.

The deferred last survivor and reversionary annuity resembles both the reversionary annuity and the deferred joint life and survivorship annuity. Such a plan provides a life income for two annuitants (an insured and a beneficiary) at some fixed future date. It is payable as long as *either* lives thereafter and it becomes payable to the beneficiary at once if the insured dies before the selected maturity date. In order to secure such a contract the insured must pass the regular medical examination required for life insurance. Another unique feature of this annuity plan is that, if the beneficiary dies before the insured reaches the retirement age selected at the time the contract is issued, the annual premium will be reduced and the annuity provision for the insured may be continued in force.

Deferred distribution. Dividends or returns to policyholders in mutual life insurance policies may be made annually or on a three-, five-, ten-, or fifteen-year basis unless prohibited by law. If made other than annually, some method of apportioning this surplus that has accrued must be devised. Distinct from the so-called *tontine* or *semi-tontine* plan, the *deferred distribution* system is based on the annual dividend idea. The plan has been described as follows:

The annual dividends which the policy would have received had it been issued on the annual dividend plan are set aside each year and accumulated at compound interest until the end of the distribution period; the amount of these accumulated annual dividends is then increased by adding a sum computed to cover the risk which the policy ran of losing surplus had it terminated by death, surrender, or discontinuance in other manner during the period.

See Deferred dividend; Semi-tontine; Tontine.

Deferred dividend. In the beginning, the deferred dividend plan was originated to meet the competition offered by the life companies operating on the annual dividend basis. The deferred dividend plan, sometimes called the *tontine* plan, was first used by the Equitable Life Assurance Society in 1868 to meet the competition of the larger companies who were distributing dividends yearly. A good many companies developed the practice, and it was severely criticized in the Armstrong investigation. In fact, as a result of this investigation, most of the states passed laws against the use of the deferred dividend system. Today, insurance companies issuing participating policies divide their surplus yearly.

The fundamental idea underlying the deferred dividend plan was that dividends were to be paid only when, under a policy of life insurance, the total premiums paid by the policyholder, accumulated at ten per cent compound interest, equaled the amount of the sum insured. In practice, many policies were issued in which so-called deferred dividends were paid at the end of each five, ten, or fifteen years, although, perhaps, twenty years was the most common period. Usually, policies issued under the deferred dividend plan paid

cash surrender values and the nonforfeiture values required by the state laws. However, policyholders who failed to continue their premium payments to the end of the stipulated deferred dividend period for any reason, lost the dividends that would have been returned to them under the annual payment plan; and those who continued their payments received the benefits of the dividends of those who failed to keep up their premium payments. That is to say, under the deferred dividend system policyholders who allowed their policies to lapse received nothing.

Many objections arose against the deferred dividend plan. Some of these were, briefly, as follows: (1) the plan frequently resulted in bad company management because no yearly accounting was required for the funds accumulating under the deferred dividend scheme; (2) agents made exaggerated promises to policyholders of the amounts they would receive at the end of the deferred dividend period; (3) a temptation to extravagance existed because the companies had on hand large sums of money to spend for getting new business, paying high rates of commission; (4) many policyholders failed to understand thoroughly the proposition; (5) the fortunate few who kept up their premium payments benefited at the expense of the unfortunate.

Still, the deferred dividend plan has some merits and in theory has many advantages. It has been said in favor of the scheme that: (1) from the standpoint of the insurance company, a year seems too short a period in which to compute and pay dividends properly; (2) the proposition is fair to the policyholder, and it seems to be no injustice that those who live the longest and continue the payment of their premiums should be compensated by the profits made; (3) if the full nature of the contract is understood, certainly it is a legitimate practice and those who want to take the chance involved cannot complain. *See* Tontine policy.

Deferred installments. Payments under a life insurance policy may be made in the form of installments of a fixed amount or for a fixed period of time. If these payments are made to the beneficiary at once upon the death of the insured they are called *immediate* installments. If they do not begin for some time, that is to say, an interval of time elapses between the death of the insured and the beginning of the payments to the beneficiary, the term *deferred installments* is given to these payments. If installments are not paid until the beneficiary reaches age 50, for example, they are in effect "deferred installments" depending on the age of the beneficiary at the time of the death of the policyholder. *See* Optional modes of settlement.

Deferred joint annuity. When the payment under an annuity stops upon the happening of the first death among the lives covered, the annuity is known as a joint life annuity. If the payment does not begin immediately but starts at some later stipulated period, the annuity is called a deferred joint annuity. Such an annuity should be distinguished from the joint life and survivorship annuity under which the payment continues to the last survivor and not the first death as in the case of the joint life annuity. *See* Deferred annuities; Immediate annuities.

Deferred joint life and survivorship annuity. *See* Deferred annuities.

Deferred last survivor and reversionary annuity. *See* Deferred annuities.

Deferred premium. Deferred premiums are reported in the annual statement under the heading of the "net amount of uncollected and de-

ferred premiums" or "net deferred premiums." If premiums are paid semiannually, quarterly, or monthly, they are deferred if the assumption of annual premium payment is presumed. *See* Installment premium.

Deferred survivorship annuity. A deferred survivorship annuity depends upon the lives of two people. It is an annuity that is to be paid to a stipulated person designated as the nominee, provided this particular person survives the one naming him to receive the annuity. *See* Deferred annuities.

Definition of insurance. Life insurance may be defined from various viewpoints such as social, economic, mathematical, or legal. From the legal standpoint, life insurance consists of a contract whereby for a stipulated compensation, called the premium, one party (the insurer) agrees to pay the other (the insured) or his beneficiary a fixed sum upon the happening of death or some other specified event. In terms of the economic concept, life insurance means the spreading of the economic loss occasioned by the death of an individual over a group of people in such a way that each person's share of the loss is slight. *See* Essentials for insurance.

Delay clause. *See* Deferment of a loan.

Delivery of policies. What constitutes a "delivery" of a life insurance policy is sometimes a controversial question. A distinction may arise between the actual possession of the document and the intention of the company to make a delivery. The policyholder does not necessarily have to get actual possession of the policy if all the conditions that would have justified a delivery have been fulfilled.

Most companies have established rules relative to the delivery of a policy. Some of these rules are as follows: (1) no contract is to be delivered until the first premium has been paid; (2) delivery must be made within 60 days of the application; (3) no delivery is to be made if applicant has made a change in his occupation or is not in good health; (4) applicant must sign and deliver all essential papers; (5) policies are not to be delivered to third parties but only to the applicant personally. Some companies provide that the effective date of the policy is when it is actually delivered. *See* Binding receipt; Effective date of policy.

Dependents. Certain classes of beneficiaries are sometimes referred to as *dependents* in life insurance practices. Beneficiaries in the family group, such as children, wives, or parents are often called dependents of the policyholder. Dependency implies a reliance upon someone for material support or assistance. Life insurance is carried, so it is frequently stated, to provide income for the dependents of the insured. *See* Beneficiary.

Deputy system. A method used by fraternal societies for securing new business is known as the *deputy system* and may be contrasted with the agency system used by the old line insurance companies. The fraternal orders employ deputies to organize lodges and secure new members. In a comparison of the deputy system and the agency system, the cost factor is a matter of considerable importance. *See* Fraternal insurance; Lodge system.

Description of mortality tables. Mortality tables may be described as either insurance company tables or general population tables. Insurance company tables, which deal only with policyholders as distinct from the total population, may be described as select, ultimate, or select and ultimate tables. A select table gives the mortality for "freshly" insured lives, say for the first five years after age of

entry. An ultimate table gives the mortality beyond the period of selection. Any mortality table may be described as a tabulated exhibit revealing probable death rates at all ages included in the table. *See* Mortality tables.

Difference in cost. This term may refer to the difference in the cost between the various types of insurance such as ordinary, industrial, or group. The expression might involve a consideration of the difference in the cost, often called net cost, as between one company or another. Sometimes the term is used in reference to the difference in the cost between term, whole life, and endowment insurance. Also the idea is used to express the difference in cost because of age change or the delay of the policyholder in purchasing insurance.

The difference between the annual premium at one age and the premium for the next age, because of change in age, may be a small amount, but when the difference is accumulated at interest for the expectation of life, or for the premium payment period if such premium payment period is less than the expectation of life, the additional cost is quite a considerable sum at most ages at issue. In addition to the difference in cost there is a great risk involved in postponing an application for life insurance, as the first-class risk of today may not be insurable at a later date.

The difference between the Life Paid Up At Age 85 Participating premium at age 35 and the premium at age 36 is only 87 cents per annum on each $1,000, but this amount accumulated at five per cent for the expectation of life amounts to $68.79. On the 30 Payment Life Participating Plan, the difference between the premium at age 35 and the premium at age 36 is 70 cents per annum on each $1,000, and this amount accumulated at five per cent for 30 years (since the premium payment period at age 35 is less than the life expectancy for this age) amounts to $48.83. *See* Age change.

Direct agency system. *See* Branch office system.

Direct beneficiary. A person designated by a policyholder to receive the proceeds of the insurance contract is termed a *direct beneficiary,* or the primary beneficiary. Some policies call such a beneficiary the *death beneficiary.* A contingent beneficiary may succeed to the rights of a direct beneficiary. *See* Contingent beneficiary.

Direct mail system. Some life insurance, but not very much, is sold by mail. The Sears Roebuck Mail Order Company attempted to sell life insurance through advertisements in its mail-order catalogues. The venture was not successful and was finally abandoned. Apparently few people will buy life insurance directly by mail, as the record of the leading companies selling insurance largely by mail demonstrates. Agents are essential if many people are to be insured and remain protected by life insurance.

Direct payment of premium. Premiums for ordinary life insurance are usually paid directly by check to the Home Office or some authorized agency. In industrial life insurance, on the contrary, premiums in considerable amounts are collected under the debit system by agents going from house to house. Industrial companies, however, allow a ten per cent refund for the direct payment of premiums on weekly premium policies. *See* Advance premium payments.

Disability benefits. Two types of disability benefits have been provided in life insurance policies because of the total and permanent disability

of the policyholder. First, most companies provide or will give the waiver of premium benefit in event of disability. Second, some companies, usually by supplementary agreement today, will provide a monthly income in event of total and permanent disability. Because of unsatisfactory experience, as well as the many difficult problems encountered, life insurance companies vary considerably in their practices on disability benefits today. Certain restrictions and conditions have been imposed on the granting of disability benefits. *See* Total and permanent disability benefits; Waiver of premium.

Disappearance of insured. A perplexing question arises under life insurance policies if an insured disappears and is not heard of for several years, premiums after his disappearance not having been paid. In such a case, the insured is presumed dead, but the question sometimes arises whether death occurred before the maturity of the first unpaid premium. The plaintiff has the burden of proving that the insured died previous to the maturity of the first unpaid premium. In *Murphy v. Metropolitan Life Ins. Co.*, 92 Misc. 479, 155 N. Y. Supp. 1062, the estate of the insured was unable to recover in such a policy. In some cases it has been asserted that the proof by the plaintiff must make it more likely that the insured died before the maturity of the first premium than afterwards.

Disappearances may arise in connection with certain circumstances that seem to warrant an inference that the insured disappeared. Situations of this kind would arise in connection with a sinking of a ship where all were lost, a fire, a drowning where apparel was left on the beach. *See* Absence of insured.

Disbursements to policyholders. *See* Payments to policyholders.

Discount for direct payment of premiums. *See* Direct payment of premium.

Discrimination. In most states life insurance companies are not permitted to make any distinction or discrimination in favor of individuals, between insureds of the same class and equal expectation of life, in the amount of payment of premiums or rates charged for policies. The same restriction applies to dividends and other policy benefits. The Insurance Law of Pennsylvania states:

> Discrimination between individuals of the same class in the amount of premiums or rates charged for any policy of life, health, accident, personal liability, or casualty insurance, except fidelity or surety bonds, covered by this act, or in the benefits payable thereon, or in any of the terms or conditions of such policy, or in any other manner whatsoever, is prohibited.

Dismemberment and death policy. *See*, in Section Two, Death and dismemberment policy.

Disposition of surplus. *See* Surplus fund.

Distribution of assets. Some life insurance companies print in their annual statement a percentage distribution of their assets. One company reports, for example, the following distribution:

Type of Asset	*Per Cent of Total*
Cash	0.8
Bonds	51.7
Preferred Stocks	2.2
First Mortgages	35.6
Real Estate	0.8
Policy Loans	6.7
Other Assets	2.2

Naturally, the percentage distribution of assets will vary with the investment policies of individual companies. Figures are available from the Life Insurance Association of

America that show a composite distribution of admitted assets for the leading life insurance companies. At the present time government bonds make up over 45 per cent of the total assets, and total bonds exceed 70 per cent of all the assets of the leading companies. *See* Annual statement; Assets and liabilities.

Distribution of surplus. Surplus funds may accumulate in life insurance company practices in no less than six different ways: (1) mortality savings; (2) excess interest; (3) savings from loading expenses; (4) gains on investment transactions; (5) profit from surrenders; (6) writing up of asset values.

Two problems arise relative to the distribution of an accumulated surplus. One problem is how much of this surplus is to be kept in special reserves or contingency funds for mortality and investment fluctuations and what amount is to be refunded to policyholders. Another problem is the method to be used, two-factor or three-factor system, in making the distribution of the divisible surplus to insureds. *See* Surplus fund.

Distribution period. The distribution period is the time for which the apportionment of a dividend is put off in life insurance under such schemes as the tontine method, the semi-tontine plan, the deferred dividend basis, and so forth. This period is, of course, often longer than one year and may be five, ten, fifteen, or twenty years or more. *See* Contribution plan; Tontine; Semi-tontine.

Distributive surplus. The surplus of a life insurance company may be put into two *net* surplus funds: (1) funds for special contingencies; and (2) unassigned funds. The *gross* surplus is made up of these two funds plus a third; namely, funds set aside for paying dividends to policyholders. This latter fund is often called the *distributive surplus. See* Surplus fund; Distribution of surplus.

Diversification of assets. One of the essential conditions of the safety of the principal in life insurance investments is a spread of the risk of investment through adequate diversification of holdings. What is adequate diversification, and how can it be obtained? The point has been well explained by Mr. O. J. Arnold, President of the Northwestern National Life Insurance Company, as follows:

> Diversification permits the weakness of one type of investment to be offset against the strength of another and tempers the blow when disaster strikes at one industry or section of the country. It is the wise man's protection against the vicissitudes of life, assuring him that he will not be dealt with too harshly. Wisely exercised diversification in the best of the various forms of securities available has been a highly important factor in making possible the unique investment record of life insurance—a record which has, over many decades, won increasing recognition and approval until today life insurance and security are syonymous in the public mind.

Life insurance companies usually carry out a program of diversity of investments in no less than four different ways: (1) distribution over different economic enterprises; (2) geographical distribution; (3) numerical distribution; and (4) application of law of average to maturities and purchases. *See* Assets and liabilities; Annual statement.

Dividend addition. The paid-up additions to the life insurance policy are in effect increases in the face amount of the policy. Dividend additions have been defined as the "paid-up insurance added to the original policy and originated in the practice of issuing and appending to the original policy, a policy payable at death, for

such an amount as the insured part of the dividends apportioned to the original policy would purchase, at a single premium." Paid-up additions generally have cash values and participate and are quite frequently one of the dividend options of life insurance policies today. These paid-up additions of insurance are secured at relatively low premium costs to the insured. Hence, the privilege of taking additional paid-up insurance through the use of the dividend is a desirable one.

Accumulations, if not used to purchase paid-up additions of insurance, are similar in nature to deposits in savings banks. Accumulated cash dividends credited on the account of a policy may be used under the automatic payment of premium provision of the policy. *See* Dividend options.

Dividend options. Under participating life insurance policies, there are a number of so-called dividend options, under which the refunds or dividends due the policyholder may be paid in various forms. At the present time, there are no less than four well-known methods for the distribution of these dividends. First, the dividend may be paid in cash. Second, it may be applied to the reduction of the premium. Third, the dividend may be left on deposit with the company until such time as the policyholder may see fit to withdraw the money that has accumulated or until he wishes to use it to hasten on the date of his endowment contract. Fourth, the dividends may be used as the yearly single premium to purchase additional paid up insurance at net rates. Of course, other uses of the dividends may be arranged. The following is a typical life policy provision dealing with dividends:

The dividends awarded hereon shall, at the option of the Insured, be (1) paid in cash, or (2) be used to purchase a Non-participating Paid-up Addition to the sum insured, or (3) be left to accumulate to the credit of this Policy, with interest at such rate as the Company may from time to time declare on such funds, but not less than two per cent per annum, or (4) be applied in reduction of premiums. If no option is elected, as provided above, such dividend will be paid in cash.

Any Non-participating Paid-up Additions purchased as provided for above, and any such dividend accumulations, held to the credit of this Policy at the time this Policy shall mature by the death of the Insured shall, together with current dividends, if any, then payable, be paid in the same manner as, and in addition to, the amount otherwise payable under this Policy.

Any Non-participating Paid-up Addition outstanding to the credit of this Policy may be surrendered at any time for a Cash Surrender Value at least equal to the amount of the dividend originally applied to its purchase. Dividends left to accumulate to the credit of this Policy may be withdrawn in cash on any anniversary of the Date of Issue of this Policy.

Dividend payments. The surplus of a life insurance company, out of which dividend payments are made, insofar as it arises from insurance operations (as distinguished from investment or financial operations), is derived mainly from four sources: (1) profit from mortality, when the mortality experience is less than that assumed; (2) profit from interest, when the net interest earnings after allowing for investment expenses are at a higher rate than that assumed; (3) profit from loading, when the insurance expenses are less than the margins provided therefor; and (4) profit from surrenders and lapses, when the values paid or credited upon the termination of the contracts or upon the cessation of premium payments are less than the corresponding net reserves. If the mortality of one basic table is lower than that of another,

the mortality "profit" of a company that operates with the lower basis will be less than that of a company which operates with the higher basis. If the assumed interest rate of one company is higher than that of another, the excess of a specified actual net rate earned over the assumed rate will be less in the former than in the latter. If the aggregate net premiums of one company are larger than those of another charging the same gross premiums, the loadings included in a specified volume of gross premiums are less, and so the profit from loading will be less (or the loss from loading will be greater) than in the company with the smaller assumed net premium. And if the aggregate reserves on terminated or defaulted policies in one company are greater than in another company allowing the same values on termination or default, the excess of the reserves over the total values paid or credited on termination of the same group of contracts will be greater in the former company than in the latter.

It is evident, therefore, that, other conditions being the same, there will be marked variations in the profits from the various sources, depending upon the actuarial basis of calculations. There will also be differences in the methods of allotment of surplus to individual policies and dividend payments. But, although the incidence of apportioned surplus may differ because of a difference in underlying actuarial computations, the amount of surplus distributed over a reasonable period of years must be substantially independent of the actuarial basis.

One company reports that in these returns to the insured or owner of the policy at the end of the year 24.1 per cent came from excess interest; 22.8 per cent from the loading charge; and 53.1 per cent from mortality savings. Present low interest rates are likely to lower the proportion of the dividend payment that can come from this source. *See* Dividend options; Surplus fund.

Dividends left to accumulate. Under this dividend option the dividends are to remain on deposit with the insurance company, where they accumulate at compound interest. This is similar to a savings-bank account. *See* Dividend addition; Dividend options.

Divisibility of contract. The legal point arises sometimes as to whether a contract of insurance may by construction be divided into separate or "several" insurances, one of which might be good even though another part of the contract is void. Generally speaking, the life insurance policy is not divisible and cannot be construed as made up of separate insurances so as to avoid forfeiture. *See* Nonforfeiture options; Incontestable clause.

Divisible surplus. Many life insurance policies contain a statement saying: "The proportion of divisible surplus accruing upon this policy (hereinafter called dividends) shall be ascertained by the company yearly." Distribution of the surplus set aside for the policyholder, called the *divisible surplus,* is a requirement of state laws. There must be an annual participation in the divisible surplus. The precise amount of this divisible surplus is partly a matter of company financial and underwriting policy. *See* Surplus fund; Dividend payments; Distributive surplus.

Doctrine of chance. Chance means the unknown or the undefined cause of events not subject to calculation, or undetermined probability in general. The doctrine of chance refers to the fact that most of the phenomena which we call chance become defined

and understood if sufficient observations are made of the particular result over a period of time and a sufficient number of events are taken into consideration. For example, in tossing a coin in the air, it may fall heads or tails, the chance of a head or tail appearing being one half. If the coin is tossed a sufficient number of times, the number of times that heads and tails will come up will approach equality.

Mr. E. R. Hardy, of the New York Insurance Exchange, has described the theory of probabilities or the doctrine of chance as follows:

> I presume all of you are acquainted with the theory of probabilities as set forth in the mathematical works. All forms of insurance are based on the theory of probabilities. The theory of probabilities endeavors to draw laws from a given set of facts in which all of the facts cannot be known but in which a sufficient number may be known to serve as a sound basis from which to draw the desired Law. Nothing is more interesting to my mind than the origin of the theory of probabilities in the 17th century by Pascal. No one at this time was interested in the question of insurance, but it was a period in the world's history when the mind of man was peculiarly alert; it was a period of intellectual vitality. The world was interested at that time in gambling and the fact of having a tool by which games of chance might be determined, although not carried to a conclusion, at once started many people to investigating the matter. De Witt, of Holland, was among the earliest to attempt to make an application of it from an insurance point of view and he did this in connection with the raising of funds for annuities for the state.

Doctrine of entirety of contract. *See* Divisibility of contract; Entirety of contract.

Domestic company. The word *domestic* designates those companies incorporated or formed in a particular state wherein it ordinarily maintains its home office. *Alien* designates those companies incorporated or formed under the laws of any country other than the United States. *See* Foreign company.

Domicile. The place where a person has his principal home is referred to as his *domicile.* The matter arises in connection with the application and in settlements in life insurance. An individual may also have his domicile where he has his family residence and personal place of business. That place to which a person has a general intention to return, and from which he has no intention of moving, is called his domicile. *See* Address of policyholder.

Double endowment. A life insurance endowment policy which is payable in double the face value of the policy, in event the policyholder survives the endowment period, is called a *double endowment policy.* Where only half the face value is paid, the policy is called a *semi-endowment policy.* When policies of this nature are issued, the beneficiaries receive only the face amount of the policy, in case the insured dies within the endowment period. *See* Endowment insurance.

Double indemnity. Many life insurance contracts are extended to give double (and in a few cases triple) the amount of the face value of the policy if the death of the insured is caused by an accident. Most of the policies define accidental death in a specific manner of which the following is typical:

> . . . that the death of the Insured resulted directly from bodily injury and independently of all other causes, that such bodily injury was effected solely through external, violent and accidental means and that such death occurred within ninety days after such bodily injury and prior to the termination of this benefit.

Nearly all policy agreements contract limitations as to the risks covered. Deaths resulting from the following causes are excluded, the limitation varying with the individual company: (1) suicide; (2) self-inflicted injuries; (3) gunshot wounds; (4) poison; (5) asphyxiation; (6) sickness; (7) ptomaines; (8) insanity; (9) sunstroke; (10) surgical operation; (11) anesthetics; (12) pregnancy; (13) violation of law; (14) legal execution; (15) murder; (16) submarine activities; (17) underground work; (18) under influence of intoxicants or narcotics; (19) disappearance; (20) military or naval service; and (21) travel in airplane.

Double indemnity is limited to ages 15 to 60 in general. The extra premium rate varies with the age and type of policy in many companies.

Double indemnity annuity. Double indemnity for the death of the insured from an accident, as defined in the contract, may be a feature of the survivorship annuity if the extra premium required for this benefit is paid by the insured. Under such a clause the amount of the annuity is doubled if the "death of insured results directly and independently of all other causes from bodily injury effected solely through external, violent and accidental means." A restriction is usually included that death must have occurred within ninety days after such accident. There are frequently many other specific exceptions to the payment of the double indemnity annuity. This benefit is generally not applicable to the reduced paid-up annuity in case of default in the premium payments. The insured is frequently given the right to have the double indemnity annuity provision eliminated from the agreement upon any contract anniversary date and to have the premium reduced accordingly. Proper endorsement is necessary for such elimination. In general, this double indemnity annuity may be regarded as a feature of insurance superimposed upon the annuity contract.

Double protection policy. This is a life insurance policy which provides for the payment of the basic face amount of the policy at death or at maturity at some age of the insured, say 85. However, if the death of the insured occurs before the policy anniversary nearest the 60th birthday, the payment to the beneficiary will be double the basic face amount. Except for this "double protection period," this policy is similar to the ordinary life policy. The argument for this policy is that it provides twice the amount of protection during the productive years of the insured. Premium rates are higher than on the ordinary life plan.

Doubtful claims. Agents are generally not allowed to arouse false hopes in the minds of insureds or beneficiaries in the case of doubtful claims. Such matters are required to be reported and dealt with by the home office.

Duplicate life contract. In event of the loss of a life contract, a duplicate contract will be issued by the companies. This is done upon receipt and approval of an affidavit on the form which will be furnished by the company. The life insurance policy is not a negotiable instrument, and is secure from claims because of its loss.

Duration of life. *See* Expectation of life; Mortality tables.

E

Earnings. In life insurance the earnings on the assets are important because premiums or the cost of life insurance depends partly on earnings on the reserve. Earnings may be viewed in absolute amounts or on

gross or net rates on total assets. Although from 1920 to 1930 the net rate of interest, the principal type of earnings for life insurance companies, averaged better than five per cent, since 1930 the average rate of interest earnings has declined.

The financial statements of the life insurance companies all reflect this downward trend in earnings. One company reports: "The total investment income earned during the year is equivalent to 3.69% of the mean invested funds, or 3.34% net after deduction of all investment expenses incurred. Our bonds and stocks have brought us 3.9% net; our foreclosed real estate and our mortgages combined have earned 8.68% net." Another company stated: "The net rate of interest earned on the company's assets was 3.18% as compared with 3.23% in the previous year." *See* Interest earnings.

Educational insurance. Educational insurance may be defined as a form of income insurance, usually on the life of a parent, generally written on a whole life or endowment plan, sometimes on a term plan, in which the policy proceeds are distributed in installments in accordance with the high school or college years of the individual so protected. Another plan is to use juvenile educational endowments which can be arranged to mature at any time during the child's educational period. Although the high school period may be taken care of through the distribution of the policy proceeds in income payments to the child throughout the high school years, educational insurance has its greatest application to university training. Prospects for the sale of educational insurance have materially increased with the growth in the realization of the value of a college education. Since it costs, conservatively speaking, about $1,000 a year to complete a four-year term at college, not less than $4,000 must be available, in amounts of $1,000 a year, to enable the child to complete his or her education. With such facts as the above in mind, the important point is to make the insurance arrangement so as to enable the child to finish college. There are several ways in which this can be accomplished, as follows: (1) use short term endowments that mature when the educational period is to begin; (2) use a policy with an income arrangement to be paid in case of the insured's death prior to the college year of the child; (3) take a policy on which the cash value available can be used, if necessary, to finance the college course; or (4) use juvenile endowments.

Effective date of policy. Generally, in order to avoid misunderstanding, the effective date or the date of issue of a policy, is stated in the contract. The insurance years and all subsequent provisions for cash loans, cash values, paid-up and automatic term insurance are computed from the effective date of the policy. Some policies definitely specify that the contract shall not take effect until the first premium is actually paid while the insured is in good health. Whether the date of the application or the date of the examination determines the effective date is a matter of company policy. *See* Binding receipt.

Effective interest rate. The effective or actual interest rate is often distinguished from the nominal interest rate. The frequency at which the nominal rate is compounded determines the effective rate. For example, a five per cent nominal rate increases the effective rate if the nominal rate is compounded semi-annually, or quarterly, or monthly. When a life insurance company pur-

chases bonds below par and holds them to maturity, the effective rate is higher than the coupon rate because of additions to principal. *See* Earnings; Amortization; Accrual of discount.

Elements in premium. The premium is often called the *consideration* for the life insurance contract. It is the sum paid to the life insurance company in consideration of the company's guarantee to fulfill its obligations in accordance with the terms and conditions of the contract. The three most important elements in the make-up of this premium are: (1) interest on reserve; (2) mortality cost; and (3) loading or operating expenses. *See* Premiums.

Eligibility for agents' licenses. Most states require life insurance agents to obtain a license. Some states make the passing of an examination necessary for the procurement of a license. Application for an agent's license is considered generally only upon the requisition of a duly authorized company or its representatives in behalf of the candidate for a license. It is unlawful for any person, unless licensed, to negotiate for, receive, or transmit any application for life insurance.

Licenses may be issued to any natural person who is a citizen of the United States, or who is a resident of the United States, and who has taken out naturalization papers. A license may be refused whenever it appears that the applicant is not of good reputation and character, is not a trustworthy person, or is otherwise not suitable to be licensed. Licenses, too, may be revoked if any person appointed is found to be unsuitable to act as an agent.

Other restrictions are often placed on the eligibility for agents' licenses. Licenses are not generally issued: (1) if the applicant is not 21 years of age; (2) if the applicant is connected with a financial or lending company; (3) when the applicants are full-time public employees. *See* Agents' qualification laws.

Emergency fund. An emergency fund may represent a special fund that a life insurance company accumulates to meet unfavorable mortality experience, security fluctuations, or real estate depreciation. Such funds in life insurance are often called contingency reserves. The fund that fire insurance companies build up to meet the danger of conflagration losses is also often called an emergency fund. Casualty insurance companies may accumulate a reserve fund to meet what are termed *catastrophe* or *shock losses*. *See* Reserves; Surplus fund; Contingency fund.

Employee's certificate. In group insurance the employee is given a certificate and not a policy. The employer gets a master policy. *See* Group life insurance.

Endless chain. In insurance soliciting, this method consists of securing names of prospects for insurance from present policyholders or prospects. By securing from your prospects or policyholders the names of, say, five persons who need insurance, and by continuing to secure names from each prospect you see, you will build up a perpetual list or an *endless chain* of prospects. This method is called the endless chain because A refers you to B and C; and B refers you to D and E, the process continuing indefinitely. Even though you may not sell a particular prospect some insurance, the endless chain method requires that you do not terminate the interview without securing from him the names of several likely prospects. *See* Cold canvass; Center of influence.

Endowment annuity. When a life insurance policy is written with an annuity provision, it is sometimes called

an endowment annuity or a retirement endowment policy. Under the terms of such a contract, the policyholder at the maturity of the policy has an option of: (1) a lump-sum cash payment; or (2) a monthly income for life. This latter option, generally providing a minimum number of guaranteed payments certain, is known as the *endowment annuity.* *See* Endowment insurance; Annuities classified.

Endowment insurance. Endowment insurance is a contract that provides for the payment of the amount of the insurance either in event of the death of the insured during the endowment period or upon his survival to the end of the period. A life insurance endowment policy is simply a combination of a pure endowment for a certain number of years with a policy of term insurance for the same period. Under present-day endowment contracts every person in the group, if living at the end of the period, receives the stipulated amount at that time. In the case of death within the period of endowment of any person in the group, the stated amount is paid to the beneficiary or the estate of the insured at the time such death occurs. This insurance combines saving or investment with life insurance. An endowment policy has been defined as: "That quasi-insurance business which really partakes more of the nature of an investment or savings bank business."

In the case of *Briggs v. McCullough,* 36, Cal. 542, it was held that such policies were contracts of life insurance. The court held that since the life insurance company, in consideration of the amount of money deposited with it, agreed to pay the depositor at the expiration of ten years a certain sum, in addition to such dividends as were earned by his deposits, or, if he died before the end of this period, agreed to pay the sum to his widow or heirs, the policy is a life insurance contract for a term of years, the provision for payment if the insured was living at the expiration of the term being merely a new element not inconsistent with a life insurance contract. It has been held (in *Tennes v. North Western Mut. Life Ins. Co.,* 26 Minn. 271; *Talcott v. Field,* 34 Neb. 611; and *Walker v. Giddings,* 103 Mich. 344) that the endowment feature is not regarded as life insurance but incidental to it.

Some endowment policies are payable when the beneficiary reaches a certain age, and though before this period all premiums have been paid the policies do not mature until the beneficiaries reach the age specified. Endowment policies may be purchased either on the continuous or limited payment basis, or as a single premium endowment. If bought on the continuous plan, the policyholder pays premiums during the full term of the endowment period; if taken under the limited payment plan, premiums are paid for a stipulated period of years, somewhat shorter than the endowment period. At maturity, endowment policies may be payable in a lump sum or in installments.

Among the more important uses of endowment policies, the following may be briefly mentioned:

1. To provide a retirement fund for old age.
2. To buy a home.
3. To liquidate a mortgage on a home.
4. To educate children (especially to provide high school or college education).
5. To buy an interest in a business.
6. To enable the making of bequests to educational and charitable or religious institutions.
7. To provide a travel fund for later years,

8. To bring about the amortization of bond issues.

Some of the special merits of the endowment policy may be summarized briefly:

1. Is a method of compulsory saving.
2. Combines protection and investment.
3. Helps to create funds for specific objects that the policyholder may use.

See Pure endowment.

Endowment options. Many life insurance policies contain a provision that permits the use of dividend additions or the deposits of accumulated dividends to mature a policy as an endowment. Some policies contain this statement: "Dividends may be applied to decrease number of premium payments or to mature policy as an endowment."

Whenever the reserve on the policy plus the reserve value of dividend additions and deposits equals the face amount of the policy, the endowment option is available. The reserve value and the cash value if equaled would permit the surrender of the policy for the cash surrender value. This so-called endowment option may take two forms: (1) the additional insurance type in which both the policy and dividends are paid in event of the death of the insured prior to the time an endowment might become effective; or (2) the accelerative endowment type in which maturity is stepped up by each dividend payment. *See* Additional insurance; Accelerative options.

English life tables. English life tables of mortality are based and constructed upon census returns and death records from the English Registrar's office. They are population tables and were constructed at intervals of about ten years; there were five tables, published on the following dates: 1843, 1853, 1864, 1885, and 1897. These tables compare in some respects to the United States Life Tables. *See* Mortality table.

Entirety of contract. Most life insurance policies contain a provision that reads:

> This policy and the application therefor constitute the entire contract between the parties. All statements made in the application for this policy shall, in the absence of fraud, be deemed representations and not warranties, and no statement shall avoid this policy unless it is contained in the written application, a copy of which is endorsed upon or attached to this policy when issued.

A somewhat different situation exists with mutual benefit life insurance associations where the constitution, bylaws, and certificate form the contract upon which the rights of the parties rest. One of the principal differences between ordinary contracts of life insurance companies and the agreements of the typical benefit society is this question of the entirety of the contract.

Environment. In the selection of risks, the mode of life, the environment both social and physical play a part in life insurance. Unhealthful living conditions influence mortality rates. Bad living habits, because of unsanitary domicile, also affect the longevity of applicants. *See* Selection of risks; Moral hazard; Inspection report.

Epidemics. Epidemics increase the mortality cost for life insurance companies. This was true of the influenza epidemic of 1918 which raised mortality costs in many cases as much as 50 per cent. In fact the epidemic of 1918 cost the life insurance companies more than the extra deaths because of the war. Life insurance companies, therefore, must keep a mortality contingency reserve to

guard against the financial strain of an epidemic. There is never any assurance that future epidemics will not happen.

Equality of risk. It is one of the fundamental principles in the apportionment of the cost in life insurance that the same risks pay the same premium. If one risk is "poorer" than another, or substandard, it is only fair that such a risk pay a higher rate or receive a lower benefit. If all the factors that influence mortality—age, occupation, physical condition—are the same between two applicants, it may be said an "equality of risk" exists. *See* Substandard insurance.

Equalization of insurance benefits. This term refers to the situation in which a life insurance company grants the same benefits to the holders of old policies that it has incorporated in new policies. Examples of this equalization of benefits as between old and new policyholders are the granting of the disability benefit, and the double indemnity benefits, and the loss of eyesight or limbs in industrial insurance. *See* Concessions.

Equation of life. By examining the American Mortality Table, one finds that the probable number of years yet to elapse until one half of the number living at any particular age are dead can be readily determined. The equation of life is at that point where it is an even chance whether a given life will be among those who survive or those who die. It may be said to be the process of finding out the period of years for which the probability of living and the probability of dying are equal. *See* Expectation of life.

Error in age. Most insurance policies contain a provision that states: "Any error or inaccuracy in stating the age of the insured shall be adjusted by payment under any of the provisions of this policy of such amount as the premium actually paid would have purchased if the age had been correctly stated." *See* Misstatement of age.

Essentials for insurance. Many writers have set forth what are believed to be the conditions in general that are necessary for the successful conduct of insurance. Among the essential conditions required for the operation of insurance, the following may be mentioned: (1) there must exist the hazard of a loss which is not under the control of the insured; (2) the number or group exposed to the risk should be of considerable size; (3) the danger of loss must happen to a relative few of the total exposed; (4) the probabilities of the happening of the loss must be capable of predetermined computation with a reasonable degree of accuracy; (5) the risk of loss must be serious enough so as to warrant protection against it; (6) the cost to the insured must not be prohibitive; (7) the organization conducting the business must be of a permanent nature; (8) integrity and honesty must prevail in the handling of the funds involved; and (9) statutory safeguards must be established to protect the interests of policyholders. *See* Regulation and supervision.

Estate beneficiary. An estate is generally defined as the condition and circumstance in which a person stands relative to his property and the people about him. Estate means also the amount and/or quality of the interest that an individual has in property.

In cases where the insured has no close relative, the estate is sometimes named as the death beneficiary. Where life insurance is made payable to the estate of the insured, rather than to a named beneficiary, drawbacks arise as to probate procedures

and taxes, and claims of creditors. *See* Federal taxes; Creditors.

Estate planning. In general, there are two methods of estate planning or estate building. One method is to accumulate a fund through the purchase of stocks, bonds, real estate, mortgages, and so forth. An estate of this nature can be accumulated over a period of years. The other method is the immediate creation of an estate by an insurance contract plus the services of a trustee. In this latter case the full amount of the estate comes into existence immediately. The big advantage of the insurance method of estate building is that only one constant factor is required; namely, a fixed annual deposit, and the estate is built. Under the first-mentioned plan the *certainty* of living so that the plan can be carried out is always a question. Moreover, the insurance method of estate planning is not defeated in case one becomes totally disabled and is no longer able to accumulate but must spend a part of the principal. Another advantage of the insurance method of estate building is that the insurance companies' guarantee does not depend on general business or financial conditions.

Estoppel. This is a legal doctrine by which a person is prevented from bringing evidence to contradict or controvert an admission or declaration. In life insurance, to illustrate, after three annual premiums have been paid on a life insurance policy, the company is estopped from defending claims on grounds other than fraud. Any claim arising under a policy by reason of errors, omissions, or misstatements of the insured in an application made by him on which the policy was issued, except as to error in age, cannot be denied by the company. Some life insurance policies permit the companies to deny liability for violation of war clauses, or the prohibition against participation in aviation.

Exact premium. The more exact premium is merely the calculation of the premium in terms of more decimal places. Correcting to more decimal places simply gives more accuracy than just figuring to the nearest cent, especially for the determination of terminal reserves. A more exact premium is written $99.400327 and not as $99.40.

Examinations. Three different types of examination exist in life insurance practices: (1) examination of agents for licenses; (2) physical examination of applicants for insurance; (3) examination of companies by state insurance departments. *See* Medical examination; Eligibility for agents' licenses; Regulation and supervision.

Excess interest. *See* Surplus fund.

Exchange of policy. *See* Conversion value.

Exclusion clauses. *See* War clauses.

Execution at the hands of justice. A life insurance policy may specify that death at the hands of justice is not covered. Some of the double indemnity provisions contain a restriction on legal execution. As a matter of public policy, some courts have held that execution for a crime is not covered even though not specifically excluded from the policy. In *Burt v. Union Cent. Life Ins. Co.* 23 S. Ct. 139, 187 U. S. 362, 47 L. Ed. 216, affirming 105 F. 419, 44 C. C. A. 548, the court stated:

> It cannot be that one of the risks covered by a contract of insurance is the crime of the insured. There is an implied obligation on his part to do nothing wrongful to accelerate the maturity of the policy. Public policy forbids the insertion in a contract of a condition which would tend to induce crime, and, as it forbids the introduction of such a

stipulation, it also forbids the enforcement of a contract under circumstances which cannot be lawfully stipulated for.

Of course, the question may arise as to whether or not the insurer is liable if the person was innocent. In this connection the court held that there could not be valid insurance of a miscarriage of justice as against public policy. The wagering feature of such a matter prevented it from being included in the policy. In a case before the Supreme Court of the United States, substantially this same opinion was given although a lower court had held the company liable (*Northwestern Mut. Life Ins. Co. v. McCue*, 223, U. S. 234, 32 S. Ct. 220, 56 L. Ed. 419, 38 L. R. A. (N.S.) 57).

In some states (Illinois, Texas, Tennessee, South Carolina) in view of a constitutional provision prohibiting the conviction for crime from working corruption of blood or forfeiture of estate, it has been asserted that it is not contrary to public policy for a life insurance company to pay the beneficiary the amount of a policy on the life of one executed by the state.

Another question arises in case of the execution of the insured after the policy has become incontestable. Some cases (*Scarborough v. American Mut. Ins. Co.*, 171 N. C. 353, 88 So. 482, Ann. Cas. 1917 D. 1181, L. R. A. 1918 A. 896) have held that a life policy, even when not making this exception, which is incontestable after a certain number of years, does not cover death of the insured at the hands of justice, whereas others have asserted that the incontestable clause stops the defense of such death after the end of the designated period.

Execution of policy. Courts have held that policies must be signed by an executive officer of the company. In some instances the signature of the insured is required to make the contract valid on benefit certificates, and on policies issued by mutual companies in order to fix his liabilities for assessment. At the present time, however, policies are usually printed with the signature of certain executive officers and are countersigned by a designated authority in conformity with state laws.

Charters of companies require that policies must be issued under the seal of the corporation, but if there is no special provision the policy does not have to be under seal.

The standard policy laws of the states generally specify that the policy provision may be incorporated in the policy to the effect that it is not valid until countersigned by the agent of the company. Countersigning is necessary to the validity of the contract. *See* Attestation clause.

Exemption of proceeds. Some life insurance policies contain a provision that exempts the proceeds of the policy from transfer or encumbrance by the beneficiary and from the claims of creditors. The following is a typical example of such a provision:

> Neither the proceeds hereof nor the payments hereunder nor the benefits accruing to any beneficiary hereunder shall be subject to transfer or encumbrance by any beneficiary, and commutation or anticipation of payments hereunder shall not be permitted except upon written direction by the Insured filed with the Company during the lifetime of the Insured; and to the full extent permitted by the laws to which this contract is subject, the proceeds hereof, the payments hereunder, and the benefits accruing to any beneficiary shall not be subject to the claims of creditors of any beneficiary or to legal process against any beneficiary.

Exhibit of gain or loss. *See* Gain and loss exhibit.

Expectation of life. The term *expectation of life* simply means the average

number of years (average after lifetime) which individuals of a particular age will survive. That is to say, it is the future average after lifetime of a group at a particular age. The concept has little value in life insurance computations for it is not used in computing premiums or the value of annuities. The "expectation of life" cannot be made the basis of an exact calculation of monetary values that depend upon the contingency of death. It has no relation to the *most probable after lifetime* or the *equation of life* of any given individual.

Mr. L. A. Anderson, in his discussion of "Expectancy of Life and Other Fallacies" (*The Record, American Institute of Actuaries,* Vol. X. No. 21, Part 1, June, 1921), said:

> The expectancy of life is the average after lifetime at any specified age according to a particular method of computing average. The reasoning back of this method is that if all the years of life shown by the table, after any particular age, be added and then the total divided by the number living at the age in question, the result will be the average period of life remaining to persons who have reached that age (and that an annuity certain for such period would be a true life annuity).

The Prudential Insurance Company offers the following as a quick method to estimate expectation of life.

> Write down the number 80, deduct the present age, multiply the remainder by 7 and divide by 10. The result is the expectation of life. For all ages from 15 to 60 this method will give a result very close to the exact figure. For example, take age fifty: 80 − 50 = 30; 30 × 7 = 210; 210 ÷ 10 = 21. This gives 21 years as the expectation of life, while the exact expectation according to the table is 20.91 years.

The expectation of life is sometimes shown in the mortality tables. According to the new table of mortality, the Commissioners' 1941 Standard Mortality Table, the expectation of life has increased. This may be seen from the comparison with the American Experience Table:

EXPECTATION OF LIFE

Age	According to the Commissioners 1941 No. of Years Expectation of Life	American Experience No. of Years Expectation of Life
16	50.10	44.85
17	49.21	44.19
18	48.32	43.53
19	47.43	42.87
20	46.54	42.20
21	45.66	41.53
22	44.77	40.85
23	43.88	40.17
24	43.00	39.49
25	42.12	38.81
26	41.24	38.12
27	40.36	37.43
28	39.49	36.73
29	38.61	36.03
30	37.74	35.33
31	36.88	34.63
32	36.01	33.92
33	35.15	33.21
34	34.29	32.50
35	33.44	31.78
36	32.59	31.07
37	31.75	30.35
38	30.91	29.63
39	30.08	28.90
40	29.25	28.18
41	28.43	27.45
42	27.62	26.72
43	26.81	25.99
44	26.01	25.27
45	25.21	24.54
46	24.43	23.81
47	23.65	23.08
48	22.88	22.35
49	22.12	21.63
50	21.37	20.91
51	20.64	20.20
52	19.91	19.49
53	19.19	18.79
54	18.48	18.09
55	17.78	17.40
56	17.10	16.72
57	16.43	16.05
58	15.77	15.39
59	15.13	14.74
60	14.50	14.10

Expected mortality. In actual practice *expected mortality* means the mortality experience which a company hopes to obtain or is in accordance with the mortality table used. For any particular company this may be average, lower than average, or favorable as compared with other companies and this variation from the expected deaths is the actual mortality. If the actual mortality is lower than the expected, a savings in mortality may mean a larger dividend payment. *See* Actual and expected mortality.

Expense of management. Assuming that the net premiums are sufficient to take care of the promises of the company under the terms of their policies, the *expenses of management* are the main items in the loading expenses of the company. The problem of the tendency of an increase in the ratio of expenses to premium is one that is giving considerable concern in the insurance business. Many factors enter into the expenses of the management and operation of an insurance company depending on whether it is a life, fire, or casualty company. There are various classifications of the items in the loading expenses of a company, the differences due in part to the type of insurance company involved. Among the many items of expense may be included those for: (1) home office administration, including expense of underwriting, statistical, agency, executive; (2) acquisition and field supervision costs; (3) taxes.

The annual statement calls for a detailed listing of the following expenses: (1) commissions; (2) salaries; (3) medical fees and inspection costs; (4) traveling expense; (5) rent; (6) legal; (7) real estate operations; and (8) taxes and miscellaneous. The gain and loss exhibit shows a division of total expenses into investment expenses and insurance expenses. One company reports the following interesting facts about its expenses:

For each dollar received from premiums and investments the amount disbursed for the company's operating expenses were as follows:

Agents' commissions	4.6 cents
Agency office expenses	.8 cents
Home office salaries	2 0 cents
Taxes (other than on real estate), supplies, and other home office expenses	3.7 cents
Total Operating Expense	11 1 cents

Expiration of policy. *See* Ceased by expiration.

Extended term insurance rights. Policies of life insurance usually stipulate that the insured has several rights after a default in the payment of premiums when a certain number of annual premiums (usually two or three) have been paid, including the right to have the net reserve value of the policy (less any indebtedness due on the policy) used as a net single premium to buy term insurance for a certain period depending upon this net reserve. The laws of some states provide that extended term insurance shall be automatic if no other alternative is provided in the policy.

In determining the sum which is applicable for this extended insurance the premiums paid by the insured are used as the basis for computing the net value. Under the Missouri nonforfeiture law, the *net value* was held to mean the excess of premiums (with four per cent compounded interest) over the actuarial cost of the policy. Under the Kentucky law, this net value was held to mean reserve or the portion of the annual premium which must be used according to the American Mortality Experience Table to meet the companies' liabilities to the policyholders. In some instances (but not all), dividends declared due the policyholder

are included in this amount applicable for extended insurance. The amount of the extended term insurance, of course, is the same as the face value of the original policy.

The usual life insurance policy provides that indebtedness due because of loans on the policy must be deducted from the amount available for extended term insurance. It is obvious that, if the policyholder has been loaned the full amount of the cash surrender value before the default, there cannot be any extended term insurance. The cash surrender value is an option equivalent to extended term insurance.

The period for which insurance is extended depends upon the specifications of the policy. The expiration of the extended term for which insurance is granted ends the insurance and no recovery can be made for the death of the insured after this termination. It should be noted that an outstanding policy loan at the time of a lapse reduces both the amount of the extended term insurance and the net single premium available to buy this protection, resulting in a considerable proportionate reduction of the term of the extended insurance. Dividend additions on the other hand will materially increase the length of the term of the extended insurance.

In the matter of deducting loans on policies where more than one state law is involved, a perplexing question arises. In *New York Life Ins. Co. v. Head,* 234 U. S. 149, 34 S. Ct. 879, 58 L. Ed. 1259, it was held by the Supreme Court of the United States that (under a policy issued to a person in Missouri, the premium being paid in Missouri, and a loan being requested from and approved by the New York office on the policy specifying that the settlement of the loan and any other indebtedness on the policy was to be made by the continuation of the policy as paid-up insurance according to the New York law) the loan agreement was a New York contract and that the Missouri law, which differed from the New York law, did not apply. In other cases the loan agreements were held to be subject to the Missouri law (*Mut. Life Ins. Co. v. Liebing,* 259, U. S. 209, 42 S. Ct. 467, 66 L. Ed. 900, affirming (Mo. Sup.) 226, S. W. 897; *Saunders v. Union Central Life Ins. Co.,* 212 Mo. App. 186, 253 S. W. 177). *See* Nonforfeiture options; Cash surrender value; Automatic premium loan; Reduced paid-up insurance.

Extra deferred survivorship annuity. A survivorship annuity may be arranged in some instances, usually as a supplement to life insurance, so that the income payments to the annuitant are deferred a certain number of years after the death of the insured. Under such a scheme the income to the annuitant is payable only in event the annuitant survives the insured by the stated waiting period which may be 5, 10, 15, or 20 years. If the annuitant dies before the insured or during the intervening waiting period, the premiums paid on the contract become the property of the insurer, nothing being payable under the contract. After the policy has been in force three full years, in case of default in premium payments, the reserve, if any, may be payable to the insured as a cash surrender value.

This extra deferred survivorship annuity plan is sometimes used to supplement life insurance. Where life insurance is payable under a settlement option to the beneficiary for a certain number of years after the death of the insured, this annuity may be secured to provide a continuation of the income after this period. For example, if a life insurance policy of $48,000 is fixed to allow income settlements to the benefi-

ciary for 20 years, there is the possibility that the beneficiary may survive these income payments. This income to the beneficiary may be continued for life by means of a deferred survivorship annuity plan which may be issued to begin at the time the life insurance settlements cease, that is, after 20 years following the death of the insured. *See* Deferred annuities.

Extra dividends. The term *extra dividend* is used to designate payments to policyholders that are in addition to the regular yearly dividend. Some companies give a "special-settlement" dividend on the termination of the policy in event of death or maturity. Most extra dividends are either single payment type or the periodical form. The latter form of extra dividend has not been widely used. *See* Semi-tontine.

Extra mortality. *See* Substandard insurance.

Extra percentage tables. *See* Substandard insurance.

Extra premium. An extra premium is the amount that is added to the regular premium rate to compensate for an additional hazard due to occupation, condition of health of insured, or other unforeseeable factors. *See* Substandard insurance.

Extremes of age. The great majority of applicants for insurance are persons between the ages of 20 and 60. When insurance is written on persons below 20 or above 60, it is often called *insurance at extremes of age. See* Juvenile insurance; Industrial insurance.

Eyesight or limbs benefit. This is a disability benefit that is now common in industrial life policies. Such a benefit, as stated in the policy, provides:

Upon receipt of due proof that the insured has suffered

(a) the loss by severance of both hands at or above the wrist joints, or of both feet at or above the ankle joints, or of one hand and one foot at or above the wrist and ankle joints, or the irrecoverable loss of the entire sight of both eyes and has survived such loss of sight for 30 days, or

(b) the loss by severance of one hand at or above the wrist joint, or of one foot at or above the ankle joint,

total and permanent disability will be deemed to exist, and the Company will pay to the Insured if living, and otherwise in the same manner as the death benefit, in case (a), an amount equal to the amount of insurance that would be payable under the Schedule on page 4 in the event of death on the date of such loss, or in case (b), one half of such amount. The aggregate amount of such payments shall never exceed the amount of insurance stated in the Schedule on page 4. In either case (a) or case (b), after the receipt of such proof, the Policy will, upon endorsement by the Company, be continued for its full amount without payment of future premiums. In all cases this benefit shall be granted only if such loss occurs (1) while premiums are not in default beyond the grace period, and (2) solely as the result of disease contracted after or injury sustained after the date of issue. This benefit shall not be granted if any such loss is self-inflicted or if it occurs while the Insured is in the military, naval, or air forces of any country at war. This benefit is granted without specific extra premium, the cost being included in the premium for this Policy.

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Face of policy. The first or front page of the insurance policy is known as the *face of the policy.* The face of a typical life policy generally includes the following: (1) name of the company; (2) policy number; (3) age of policyholder; (4) the insuring paragraph; (5) statement about policy application; (6) double indemnity benefit, if any; (9) consideration

clause; (10) policy settlement; (11) provisions, benefits, and so forth; (12) witness and signature; and (13) sum insured.

The policy number is used so that the company can keep a record of and identify the particular contract. The age to be given is the age of the policyholder at his or her nearest birthday and is the age upon which the regular premiums are based.

Under the insuring clause, a promise is made to pay the beneficiary a sum insured (called face amount of the policy) in event the beneficiary survives the policyholder. Otherwise, upon the maturity of the policy the money is paid to the executors, administrators, or assigns of the beneficiary. The sum is payable upon receipt of due proof of death of the insured.

By the terms of the disability provisions the policyholder is entitled, in case of becoming totally and permanently disabled, to: (1) be free from all future premium payments; and (2) receive a monthly income.

The consideration for which the company agrees to insure is the payment of the premium. The premium is to be paid in advance on the dates specified in the policy. Any unpaid premium or installment of a premium will usually be deducted from the amount paid upon the maturity of the policy. A loan or other indebtedness is also deducted.

By a declaration over the official signatures of the company's officers, the provisions, benefits, agreements, and other conditions of the rest of the policy are made a part of the contract. The application for the insurance is also made a part of the contract.

The date of the issue of the policy is stated in the *witness thereof* section of the policy. It should be noted that the date of issue and the date of premium payment may differ. Term insurance for a short time may be used to shift the date of payment of the regular premium from the policy date.

Facility of payment clause. The *facility of payment clause* is a provision in an industrial policy that allows the company, if no beneficiary is designated, to pay the proceeds to any relative by blood or connection by marriage, or, to any other person equitably entitled thereto by reason of having incurred expense occasioned by the maintenance or illness or burial of the insured. The purpose of the clause is to allow the company to pay the proceeds to the person most equitably entitled thereto as promptly as possible after the death of the insured. Although payment to a designated beneficiary is generally included in industrial policies today, the facility of payment provision is not found in ordinary policies. *See* Industrial insurance; Policy provisions.

Fact of death. *See* Cause of death.

Factors. Premiums for ordinary life insurance are based on $1,000 and yearly payment. When premiums are written on semiannual, quarterly, or a monthly basis, the rate books give *factors* for finding these shorter period premiums. For example, for semiannual premiums, add four per cent to the annual premium and divide by two. For quarterly premiums add six per cent to the yearly premium and divide by four. Another rate book states: "the semiannual and quarterly premiums are respectively 51% and 26% of the annual."

Facultative reinsurance. Reinsurance is the transfer of the amount of the risk (excess) beyond its own limit to some other company. By reinsurance the whole or part of the business of the original underwriter is ab-

sorbed by another company. The burden of assuming the direct insurance may be on an automatic or facultative basis. The share of the liability assumed by the reinsurer may be either on the coinsurance basis or on the yearly-renewable-term plan.

When the straight writing company has to submit the documents on each risk to the reinsurance company for consideration, the procedure is called *facultative reinsurance.* Facultative has the meaning here of being "optional" or "contingent" on the decision of the reinsurer. On the contrary, automatic reinsurance is compulsory for whatever share the reinsurer has unconditionally agreed to take. *See* Reinsurance.

Fallacies. Many fallacies or mistaken ideas exist in the minds of the layman in regard to life insurance. One of the earliest was that life insurance was gambling and a pure wagering contract. Many misleading ideas exist on mortality tables, insurance rates, costs of insurance, lapses, and policy provisions. It is a common mistaken notion that the rates for life insurance are calculated on the "expectation of life." The "average future lifetime" idea is sometimes misunderstood in its application to life values. *See* Expectation of life; Life value.

False statements. There are certain conditions under which a false statement in an application or a medical report will cause a life insurance policy to become void. It must be proved that such a statement was willfully false, was fraudulently made, that it is material, and induced the company to issue the policy, and that but for such answer the policy would not have been issued. Also it must be shown that the agent or company had no knowledge of the falsity or fraud of such statement.

Many states have laws that impose fines and/or imprisonment upon persons found guilty of making false statements regarding the solvency of an insurance company. This legislation covers any false or untrue statement, rumor, or suggestion, derogatory to the financial position or standing of any insurance company.

Family group life insurance. This is a form of policy that includes all the members of the same or one family. It should not be confused with the usual form of group life insurance because more than one person is covered. Most family group life insurance is sold under a single policy, chiefly by assessment associations, and generally without medical examination on a term insurance basis. *See* Group life insurance.

Family history. Applicants for life insurance are required to make statements concerning their family history, including general health, cause of death, and age at death of relatives. The chief relatives involved are parents, brothers, and sisters of the applicant. These statements are important for several reasons: (1) the degree of longevity as shown by the parents indicates something of the insurability of the risk under consideration; (2) special diseases that caused death of parents, such as cancer and tuberculosis, are valuable in considering the applicant's own condition.

Although false statements regarding such matters have been construed by some courts as voiding the policy, the usual tendency is to be more liberal. Where the insured is only requested to reveal such facts regarding his family history to the best of his knowledge, the policy is usually not voided if the insured answers *in good faith* and to the best of his knowledge. It has been held that such statements regarding relatives often

call for opinion and belief on the part of the applicant, and in many cases, therefore, the knowledge and intent of the insured are important. *See* Medical examination.

Family income policy. The family income arrangement is an agreement, either in the original policy or added by a supplementary rider, whereby a combination of whole life and decreasing term insurance is furnished in one contract. These agreements may run for 10, 15, or 20 years. Under the family income policy provision is made so that if the death of the insured occurs during the "family income" period, a monthly income, say of $10 for each $1,000 of insurance, will be paid to the beneficiary until the end of the family income period. For example, if the agreement were issued at age 35, on the 20-year plan, and the insured died two years later at age 37, the income would be paid for 18 years.

It should be noted carefully that payments under the family income policy continue only from the date of the insured's death until the end of the period selected which is less than the 10, 15, or 20 years, as the case may be, if the insured lives out a part of the period selected. At the end of the selected period, if the policyholder survives, the decreasing term insurance part of this contract terminates. At the end of the income period, the face amount of the policy becomes payable to the beneficiary in cash or under the terms of any other settlement option that may be provided in the policy. The family income policy is, therefore, an arrangement whereby: (1) an income of $10 a month for each $1,000 of basic insurance from the date of the insured's death until the end of the family income period is paid; (2) a lump-sum payment is made at the end of the family income period of the face amount of the basic insurance, or in lieu of a cash some optional mode of settlement is arranged. *See* Family protection policy.

Family insurance. The term *family insurance* has been applied to industrial insurance because the companies will write policies, single not group, on all members of a family from birth to the higher ages. Several studies have been made of the distribution of industrial insurance within the family such as on children, the wife, and the husband. Although all of these surveys show that most of the insurance is on the principal wage earner, still enough insurance is written on other members of the family to give rise to the use of the expression, "family insurance." *See* Industrial life insurance.

Family maintenance policy. *See* Family protection policy.

Family protection policy. This policy combines ordinary life insurance with a *level* amount of term insurance for the period selected, either 10, 15, or 20 years. It differs from the family income policy on two points: (1) the term insurance is on a level, not a decreasing basis; (2) the income payable on death is for a definite period of 10, 15, or 20 years regardless of the date of death of the insured provided the death occurs in the protection period. The family income policy, on the other hand, pays the income only for the period selected less the number of complete years that the insured lives after the date of issue of the policy. The additional term insurance, which is on both the "family protection" and the "family income" policy, expires at the end of the selected period. At the end of the selected "protection" or "maintenance" period, the face amount of the policy is payable in a single lump sum or on some selected installment basis. *See* Family income policy.

Fatal injury. *See* Accidental death benefit.

Favorable mortality. When the *actual mortality* of a life insurance company is lower than the *expected mortality,* a *favorable mortality* is said to exist. A favorable mortality is a decided advantage to a company inasmuch as the savings from mortality may be used as dividend payments or accumulated in the surplus. *See* Actual and expected mortality; Expected mortality.

Federal control. The question of state or federal control over the regulation of life insurance is an old and changing phenomenon. Apparently from 1868 to recently, the exclusive control of the states over the insurance business was not questioned, in fact, was sustained by high court decisions. In the famous case of *Paul v. Virginia* (8 Wallace 168), the United States Supreme Court in 1868 declared that the business of insurance was not "commerce" within the meaning of the commerce clause of the federal constitution. For 76 years, therefore, the various states had almost exclusive control over the regulation and supervision of the insurance business. But on June 5, 1944, the Supreme Court in the *United States v. South-Eastern Underwriters Association et al.* (322 U. S. 533) gave a decision which to many people places the insurance business potentially under federal control. *See* Supervision and regulation.

Federal taxes. Federal taxation affects life insurance in two basic ways. First, the companies must pay no less than three different types of taxes to the federal government; (1) an income tax on their net taxable investment income; (2) miscellaneous sales or excise taxes such as stamp taxes, transportation and communication excises; and (3) social security employment taxes. Second, the policy proceeds may be subject to federal income tax, the federal estate tax, or the federal gift tax.

Federal income taxation of life insurance policy proceeds depends on and varies with different situations such as transfer for a valuable consideration, death-claim proceeds, surrender values, or maturity payments. Generally policy proceeds of every description are free from federal income taxes until the full cost of the policy has been completely recovered, but special rules apply to interest payments and annuities.

Insurance proceeds paid to the decedent's estate are subject to the federal estate tax. On proceeds made payable to a named beneficiary, the old $40,000 specific exemption no longer exists, and the full policy proceeds must be included in the gross estate if the insured retains any of the "incidents of ownership" in the policy, such as right to change beneficiary, borrow on policy, or pledge it for a loan. Gifts of life insurance, like the gifts of any other personal property, are subject to the federal gift tax. For a full treatment of federal taxes on insurance, see Prentice-Hall Tax Service.

Fees. Miscellaneous fees are quite an item in the insurance business. The following shows the miscellaneous fees that are paid in the State of Maryland:

Every insurance company doing business in this State shall also pay the following fees to the Insurance Commissioner:

(a) For filing the certified copy of charter, declaration of organization or deed of settlement required by this Article to be filed as a condition precedent to doing business in this State, the sum of twenty-five dollars.

Filing fees for charter and statement to be retained if application rejected—Opinions, No. 134.

(b) For filing each annual statement, the sum of twenty-five dollars.

(c) For the certificate of authority or license issued to each agent in this State of every such insurance company, the sum of two dollars.

(d) For the certificate of authority or license issued to each solicitor in this State of every such insurance company, the sum of two dollars.

(e) For each abstract of its annual statement for publication, two dollars.

(f) For every copy of every paper filed in the Insurance Department, the sum of twenty-five cents per folio; and for affixing the official seal to such copy, the sum of one dollar.

(g) For valuing individual policies of life insurance companies, fifteen dollars per million of insurance or any fractional part thereof, and for valuing group policies of life insurance companies, three dollars per million of insurance or any fractional part thereof.

(h) For official examination of companies under this Article, the charges specified in Section 51 of this Article.

Female risks. Some companies write women at the same rates as men, others impose an extra charge, and many companies limit the amount and type of policy on female risks. Many companies charge a higher rate for disability benefits for women, and limit the amount of coverage that will be granted to women during pregnancy. All companies charge women a higher rate for annuities than they charge men. On this annuity rate women sometimes make the observation: "If we are charged more for annuities because on the average we live five years longer than men, we should get life insurance at lower rates than the men for living this much longer."

Field force. Generally the life insurance business, in terms of its organization, is made up of the home office and the field force. The field force is made up of the general agents and/or branch managers and their selling agents, medical men, inspectors, cashiers, and other clerical workers. *See* Home office.

Fifty per cent refund life annuity. *See* Immediate annuities.

Filing back. This is the name given to a policy of insurance when it is folded up and filed or delivered to the policyholder. On the "filing back" of a typical life insurance policy, the following information is given in a summary manner: (1) name of company; (2) amount of insurance; (3) date of issue; (4) amount of premium; (5) due date of premiums; (6) name of agent; (7) kind of policy; (8) distribution of dividends if a participating policy; (9) age of insured; and (10) policy number.

Some companies print on the filing back a statement such as the following: "The company should be notified at once of the death of the policyholder. It is not necessary to employ any person to collect the benefits becoming due under this policy. Save time and expense by communicating with the company."

Financial hazard. *See* Inspection report.

Financial statement. *See* Annual statement.

First premium settlements. Some companies allow their agents to hold policies for a period of time (60 days) pending the settlement of the first premium. However, when a cash settlement has been made, the payments must be remitted promptly by the agent to the company.

First-year commission. Under most of the existing methods of compensation to life insurance agents, the first-year commission is much higher than the commission for the next five or nine years. Many people have advocated changes in this first-year commission plan. *See* Compensation of agents.

First-year term. *See* Full preliminary term plan.

Fixed income. This is one of the various settlement options as provided by life insurance policies. Payments are made in equal annual installments, the first installment payable immediately, each of such amount as may be elected, continuing until the said net sum and interest are exhausted, provided that the final installment shall include any balance of less than one installment. On each anniversary of the first installment, interest on the unpaid balance will be added thereto at a stipulated per cent per annum, increased from profits as apportioned by the company. If desired, installments will be paid in semiannual, quarterly, or monthly parts of the same aggregate annual amount. *See* Optional modes of settlement.

Flat extra premium. *See* Extra premium.

Flexible premium. *Flexible premium* means a premium charge that is not fixed. Such an arrangement is commonly associated with assessment companies in which a certain premium is charged at the inception of the risk but before the termination of the policy an additional premium charge may be made. Mutual life insurance premiums are flexible to the extent that dividends, if they vary from year to year, are used to reduce the premium payments.

Foreign company. Any company not organized or incorporated under the laws of a particular state is considered a foreign company. "The term *foreign insurance company* shall include any company, corporation, association, partnership, or individual of any foreign country doing insurance business in this state," say the insurance laws of Connecticut. Many states distinguish between an alien and foreign company. The foreign company is one from another state in the United States; the alien company is of another country.

The states usually provide that foreign insurance companies are subject to the same laws regulating their operations as the domestic companies of the state. That is, a particular state has a right to specify under what conditions the insurance companies incorporated in other states may operate within that state. By this means, the foreign insurance company operating in a state generally does not have any legal advantage over the company incorporated in that state. Usually the foreign company must submit to examination and investigation at the home office of that company by the insurance commissioner of the states in which it is operating. It is also required to keep on deposit with such state officers the same deposit as a domestic company, credit usually being given, however, for such deposits in the home state. *See* Domestic company; Alien company.

Foreign travel. Under normal conditions life insurance policies are not restricted as to territorial limits or foreign travel. Under conditions prevailing in recent years most companies have not found it advisable to consider applicants contemplating travel or residence in localities outside the mainland of the United States with the exception of a few other countries. Some companies will issue policies with the usual "war clause" and for an extra "habitat premium." If the insured returns to the United States or to the other permitted areas, the extra premium charge is removed. *See* Residence; Travel.

Forfeiture. *See* Nonforfeiture options.

Forms of policies. Many ways have been developed by the writers for

classifying life insurance policy forms. The most common classification is on the basis of term, whole life, and endowment. These three fundamental forms of life insurance policies are again classified in terms of payment of proceeds as: (1) lump sum; or (2) income policies. In terms of premium payments, forms of policies are single payment, limited payment, and continuous payment policies.

Fractional premium. To defer the renewal date of a policy, a small premium may be paid to cover the time that elapses between the issue of the policy at a full rate and the expiration of the present policy. Any part of the yearly premium other than semiannual, quarterly, or monthly is the "fractional premium." A full rate policy begins upon the termination of the coverage granted for the fractional rate. In life insurance, the payment of a fractional premium is a means of changing the annual premium payment to a different date from that of the policy anniversary. *See* Interim term; Premium.

Fraternal benefit society. The laws of many states define such an organization substantially as follows: Any corporation, society, order or voluntary association, without capital stock, organized and carried on solely for the mutual benefit of its members and their beneficiaries, and not for profit, and having a lodge system with ritualistic form of work and representative form of government, and which shall make provision for the payment of benefits in accordance with the laws is declared to be a fraternal benefit society.

It will be observed from this definition that the fraternal benefit society is of a dual nature. In the first place, it is a social organization or club. In the second place, it is also a business organization in regard to the issuance of life insurance. *See* Fraternal insurance.

Fraternal certificate. The life insurance issued in the fraternal benefit society is in the form of a certificate of membership instead of a policy. Membership implies that the contract of insurance includes not only the certificate but the charter and bylaws, and changes that may be made. Although a member may agree to changes in, say, the bylaws of a mutual benefit society, he is usually protected from the consequences of unreasonable changes. *See* Entirety of contract; Fraternal insurance.

Fraternal Congress Table. *See* National Fraternal Congress Table.

Fraternal insurance.. Fraternal insurance may be defined briefly as a system of mutual co-operative protection or insurance furnished by the fraternal order to its members on a nonprofit basis. A fraternal benefit society, or a fraternal beneficiary order, is a group of individuals who have united into an organization having a lodge system with secret ritualistic work and a representative form of government for the purpose of fellowship, provision of benefits for members, and reasons other than business or commerce. Societies of a secret nature providing benefits to members are classified as one form of mutual benefit associations. The insurance laws of many states define a fraternal society, lodge system, representative form of government, and the benefits which may be provided by such societies, in a manner similar to the following:

> Any corporation, society, order, or voluntary association, without capital stock, organized and carried on solely for the mutual benefit of its members and their beneficiaries, and not for profit, and having a lodge system with ritualistic form of work and republican form of government and which shall make provision

for the payment of benefits in accordance with section 125, is hereby declared to be a fraternal benefit society.—[Alabama]

Any society having a supreme governing or legislative body and subordinate lodge or branches by whatever name known, in which members shall be elected, initiated and admitted in accordance with its constitution, laws, rules, regulations and prescribed ritualistic ceremonies, which subordinate lodges or branches shall be required by laws of such society to hold regular or stated meetings at least once each month, shall be deemed to be operated on the lodge system.—[Arizona]

Any such society shall be deemed to have a representative form of government when it shall provide in its constitution and laws for a supreme legislative or governing body, composed of representatives elected either by the members or by delegates directly and indirectly by members, together with such other members as may be prescribed by its constitution and laws:
Provided, that the elective members shall constitute a majority in the number and have not less than two-thirds of the votes, nor less than the votes required to amend its constitution and laws; Provided, further, that the meetings of the supreme or governing body and the election of officers, representatives, or delegates shall be held as often as once in four years. The members, officers, representatives, or delegates of a fraternal benefit society shall not vote by proxy.—[Washington]

Taken as a whole, fraternal benefit societies provide life insurance (death benefits), funeral benefits, monument or tombstone benefits, whole family protection, juvenile life insurance, old age benefits, health and accident benefits, medical treatment, maternity benefits, as well as other necessary aid. However, few, if any, fraternal societies provide all these benefits. Of these various forms of insurance just mentioned, the fraternals have placed the most emphasis upon life insurance or death benefits. Beneficiaries are often limited to members of the family, heirs, or dependents of the member. In Missouri, for example, if the association pays benefits to the legal representatives of the insured, it is not considered as a fraternal association.

In many cases it has been held that the social and secret features of the fraternal orders do not affect the status of the contract as one of insurance. For example, a membership certificate in the Ancient Order of United Workmen was held to be a contract of insurance in *Daniher v. Grand Lodge A. O. U. W.*, (Utah) 37 Pac. 245, and the fraternal character was considered to be incidental.

Fraternal insurance associations have no capital stock, and they are organized for the sole benefit of the members and their beneficiaries. They are in some ways like mutual insurance companies. An individual member of a fraternal benefit association helps to insure the other members, and he in turn is insured by the other individuals of the group. Fraternal insurance has been operated on the assessment plan, the fraternity either collecting as many assessments as may be necessary to meet the claims; or, when the sum and the number of assessments is fixed, agreeing to pay the assessment. Not infrequently the assessment is limited to a sum not to exceed a definite amount. A distinguishing point between assessment insurance and fraternal insurance is brought out in *Supreme Commandery Order of the Golden Cross v. Hughes,* 70 S. W. 405, 24 Ky. Law Rep. 984.

A fraternal insurance society is one in which the business is carried on by secret fraternal lodge or council, under the supervision of a grand or supreme body, and which secures its

members through the lodge system exclusively paying no commission and employing no agents except in the organization and supervision of the work of the local lodges.

In the fraternal insurance associations, the members are insured by reason of the membership in the society. Insurance associations limiting their policyholders to members of certain secret lodges (such as Masonic relief associations) are not in themselves secret orders or fraternal insurers but are co-operative assessment companies, another form of a mutual benefit association. For details on fraternal insurance see *Statistics of Fraternal Societies* by the Fraternal Monitor and the *Fraternal Compend Digest* of the National Underwriter Company. *See* Mutual benefit association; National Fraternal Congress Table.

Friendly society. *Friendly society* refers chiefly to certain British societies engaged in the practice of furnishing sick, accident, and death benefits. The principle underlying these orders is that of mutual aid.

Full preliminary term plan. The full preliminary term plan is a method of modifying the reserve on insurance policies. Under this system it is assumed that all of the gross premium for the first year is used in paying expenses and claims and that nothing whatever remains; in effect the first year of the policy is considered as term insurance. Consequently, under this plan there is nothing in the reserve fund at the end of the first year. The assumption is made that two different insurance policies exist, one a term policy for one year at the age of the insured, the other an ordinary life policy on the basis that the policyholder is one year older. The reason no reserve is accumulated on the first year is that the one-year term policy naturally has expired, the reserve in this case starting at the end of the second year. The full reserve is not made up until some time later, when all premiums have been paid under limited pay policies or at much later years under the whole life policy. Many state regulations will not permit the use of this method for the higher premium policies because of the danger of possible extravagance and even competitive commission wars. Legal restrictions in most states restrict the use of this method of reserve adjustment and valuation to certain types of policies. *See* Modified preliminary term plan; Select and ultimate method.

Full rate policy. *See* Fractional premium; Interim term.

Fully paid policy. This is a life insurance policy on which no more premium payments are required. This condition may come about because of disability benefits or because the policy is written on a limited pay basis. A single premium policy is "fully paid" on receipt of the premium. *See* Limited payment policy.

Functions of insurance. *See* Uses of insurance.

Fundamental forms of insurance. Some writers have listed the fundamental forms of life insurance policies as follows: (1) ordinary or whole life; (2) limited payment life; (3) endowment policies; and (4) term policies. All of these forms may be for a lump-sum payment or on some income or installment basis. These contracts may be written on the "participating" or the nonparticipating basis. Participating policies share in dividends or refunds so far as the policyholder is concerned. In behalf of nonparticipating policies one company writes:

> The policies issued by this Company are all on the nonparticipating or guaranteed low cost plan. The premiums required by these policy contracts are as

low as safety will permit, and are guaranteed to remain at such low figure during the entire premium payment period. The exact premium is stated in the policy contract and is not subject to increase or decrease by the Company, hence the Insured knows in advance exactly what he will have to pay for his policy each year.

Funded insurance trust. In life insurance the funded trust is a plan of taking care of the policyholder's insurance proceeds together with the other securities and property of the insured. Under this arrangement the estate of the insured produces an income which is used to pay the premiums on the insurance. In the funded trust arrangement the trust company pays the premiums on the insured's policies out of the funds already provided. In a funded insurance trust, as distinguished from a straight insurance trust, income-producing property is deposited with the trustee; the income from the property is used to pay premiums on the insurance. The trust agreement provides for the disposition not only of the proceeds of the insurance, but of the original income-producing property as well. When the insured dies, the insurance proceeds unite with the other wealth of the policyholder to form a fund which is administered according to the terms of the insurance trust agreement. *See* Investment insurance trust.

Funds. In life insurance the word *fund* may be used to describe many different types of stocks or accumulations of money. For example there are mortality funds, investment funds, reserve funds, and surplus funds. In each case these funds represent capital or money set apart for the carrying out of some specific purpose. *See* Surplus fund.

Funeral cost. *See* Burial expense.

Future lifetime. *See* Expectation of life.

G

Gain and loss exhibit. A balance sheet for the year's business setting forth the income and expenditures of a company in such a manner that the sources of contributions to surplus are shown is called the *gain and loss exhibit* under the old form. This exhibit, a new form of which was put in use in 1939, is a statutory requirement in many states and is contained in the *convention blank* reported to the state insurance departments. It is, therefore, one of the schedules that must be furnished to the insurance department each year.

The gain and loss exhibit is divided into three main parts as follows: (1) the insurance exhibit, and (2) the investment profit and loss exhibit, and (3) the miscellaneous and surplus exhibit. The fundamental basis of the gain and loss exhibit is an attempt to compare the actual experience of the companies with respect to mortality, expense, interest, lapses, and surrenders, with the corresponding theoretical figures of the expected mortality, expense loadings, interest required to maintain reserves, reserves released on lapses and surrenders, all on the basis of the valuation mortality table and interest rates. It may be pointed out that a change in valuation basis may bring about important changes in the figures.

Gain from interest. In the practice of life insurance, a certain rate of interest to be earned is assumed, such as three per cent. It follows, however, that, if the rate of interest actually earned should be greater than that assumed, a *gain from interest* would be made. In general practice, the actual interest earnings are in excess of the rate assumed. In mutual companies, a part of this gain from interest is returned to the policyholder in

the form of a so-called dividend. Gains are also made from mortality loading if these two elements are less than the assumed amounts or rate.

Gambling and insurance. In the application of the principle of insurance, the charge is sometimes made that insurance is a gamble. When, however, the real function of sound insurance is fully understood, it will be observed that a difference exists between insurance and gambling. In gambling, a risk that previously did not exist is created, and the purpose of the gambler is to gain at the expense of someone else. In insurance, on the other hand, no new risks are created, since these already exist, and the purpose is to protect the insured against a possible loss without rendering him any profit. *See* Insurable interest.

General agency system. A sales organization system used by many insurance companies which divides the country into territories is called a *general agency system.* Each territory is assigned to a general agent, who has control over a definite field in which he is held responsible for the production of business. His compensation consists generally of initial and renewal commissions. The general agency system is a field organization and business development plan and is to be contrasted with the home office of a company. It is also important to distinguish between the general agency system and the branch office system. The branch office plan is a more centralized type of business organization than the general agency system. *See* Branch office system.

General agent. It is difficult to define briefly and satisfactorily the term *general agent,* as will be revealed in reading the law books on agency. The title is rather loosely used today and is subject to various legal interpretations. In recognition of the unsatisfactory nature of any definition, it may be said that the general agent of an insurance company is a person, firm, or corporation authorized in writing to transact business in the name of the company within a certain prescribed territory, and that has full power to sign, deliver, and cancel policies, and to collect premiums, and that has practically the same status as a company branch office. One of the principal duties of the general agent is to secure and train local agents, to whom he pays a commission for securing the business. The general agent is essentially an independent business man.

General contingency fund. *See* Contingency fund.

General double indemnity. *See* Double indemnity.

General insurance guarantee fund. *See* Savings bank life insurance.

General policy provisions. Many life insurance policies contain a section entitled "general provisions." Although policies differ in some details as to what is included under this heading, the following is a composite listing of the more usual "general provisions":

Payment at Death
Payment at Maturity *
Cash Values *
Annuity Options
Beneficiaries
Alternate Beneficiaries
Change of Beneficiary
Deferred Payment Privileges
Premium Payments in Advance *
Grace Period for Premiums *
Statements Are Representations *
Installment Premium Privilege
Policy Loans *
Automatic Extended Insurance
Paid-up Insurance Option *
Reinstatement Privilege
Incontestability *
Suicide Provision

Misstatement of Age *
Reserves
No Restrictions
Assignments
Entirety of Contract *
Dividends to Policyholders
Dividend Privileges
Dividend Accumulations
Post Mortem Dividends
Dividend Paid-up Privilege
Dividend Maturity Privilege

The provisions with an asterisk (*) are generally required by state laws. The other provisions are optional with the insurance companies.

Geographical limitation. Some insurance policies are world-wide so far as the coverage applies. Other policies exclude certain countries. Most policies issued in the United States are limited to the United States, Canada, and Mexico, and other specific areas. Life insurance policies may specify within what prescribed regions the insured may travel.

Gifts for insurance. Some of the insurance statutes place restrictions upon the distributing of gifts, merchandise, or other things of value by an insurance company, agent, or broker. The Illinois Insurance Code, for example, prohibits any company, agent, broker, or solicitor from offering, promising, allowing, or giving any valuable consideration or inducement to or for insurance on any risk in Illinois. Also, agents and brokers are prohibited from giving a policy, or any portion of a premium, for advertising purposes. *See* Rebating.

Gift tax. *See* Federal taxes.

Gold bonds. Some insurance companies issue what are variously called debentures, consols, or gold bonds as life insurance policies. These are essentially high-interest-rate policies for which an extra premium is charged in order to guarantee the stipulated interest rate. *See* High interest policies.

Government insurance. The term *government insurance* is a broad one and includes within its scope all forms or schemes for the federal, state, or local government establishment, operation, and administration of insurance. This includes federal war risk insurance, National Service Life Insurance, the registered mail and parcel post insurance, the employees' retirement fund, and the teachers' pension fund. It also includes monopolistic state workmen's compensation funds and all other state insurance schemes such as the Wisconsin State Fund. Local insurance plans for firemen, policemen, teachers, mothers, employees, old people, and unemployment, are also forms of government insurance. *See* National Service Life Insurance; Savings bank insurance.

Government supervision and regulation. *See* Supervision and regulation.

Grace period. In some states, a statutory provision is made for a "days of grace" provision to be incorporated in life insurance policies. A typical provision of this kind reads as follows:

> After payment of the first annual premium hereon or an installment thereof, payment of any subsequent premium or installment of premium may be made within thirty-one days after the same shall have become due, the policy meanwhile continuing in force.

In many states, a period of 30 or 31 days' grace is specified for the payment of every premium after the first. It was held in *Southland Life Ins. Co. v. Hopkins* (Tex. Civ. App., 219 S. W. 254) that the company cannot hold the policy forfeited until 30 days after the nonpayment of premium, even though the statutory provision of the

state was not incorporated in the policy. The usual rule is that, if grace (extension of time of premium payment) is allowed in the payment of the premium, the policy is not forfeited until the end of such days of grace. It has been asserted, in some cases, that the right of recovery under a policy is not affected by the death of the policyholder before the premium was paid but before the termination of the days of grace (*McMaster v. New York Life Insurance Co.* (C. C.) 90 F. 40). In case the policyholder dies during the grace period, the premium due on the policy is deducted from the sum paid to the beneficiary.

Graded death benefits. Most juvenile policies pay less than the ultimate face value of the policy if death occurs within a specified period. Gradually the sum payable increases until the full face value is payable. Such policies generally contain a table showing the grading of these benefits of which the following is an example:

TABLE OF GRADED DEATH BENEFITS

The amounts stated below are for a policy of ultimate face amount of $1,000. This policy being for an ultimate face amount of $1,000 00, the death benefits will be one times the amounts stated below according to the age of the Insured (nearest birthday) at the date of this policy if death occurs during the first policy year, otherwise at the last anniversary of the date of this policy preceding the death of the Insured.

Age	Amount	Age	Amount
Under 6 Months	$ 50	6	$ 600
1	100	7	700
2	200	8	800
3	300	9	900
4	400	10 and over	1,000
5	500		

Gross assets. In the annual statement, as filed with the state insurance departments, gross assets are made up of ledger assets and nonledger assets. *See* Nonledger assets.

Gross premium. According to the insurance laws of Delaware:

> Whenever, in this code, the words *gross premiums* are used in reference to premiums received by fire insurance companies on policies covering risks located within the State of Delaware, the same shall be taken and held to mean all monies collected as premiums on such policies, less return premiums paid therefrom by reason of cancellation of policies, and less reinsurance premiums received from companies authorized to do business in this state which shall pay to the state taxes on the original premiums.

The above idea is one concept of gross premiums in which the term is defined, by statute, for insurance taxation purposes. In life insurance, the term *gross premium* is used to denote the premium charged the policyholders as specified in the rate book and is sometimes called the *office premium.* This premium is made up of what is called the *net premium* and loading expenses. The "gross participating" premium is the book premium, and becomes the net premium when "overcharges," if any, are refunded to the policyholder as dividends. *See* Loading; Net premium.

Gross surplus. *See* Surplus funds.

Group annuity. In the field of insurance, especially the application of the annuity idea to the masses, the group annuity represents a recent development. Under this system, annuities are purchased for employees either by the employer or by the employer and employee. The latter method appears to present some difficulties in the way of administration.

The best-known group annuity is the retirement annuity, which is payable to each employee covered under the contract upon retirement from active service at a specified age. Such annuities are essentially deferred annuities.

In promoting the development of group annuities, the so-called *package plan* has had an appeal. Under this scheme, the idea of the group annuity is sold along with other

forms of group insurance. On this plan, the employee has in one fund, so to speak, life insurance, disability insurance, and a group annuity.

The entrance of the life insurance companies in the field of group annuities for establishing pension plans for employees has been a step in the right direction from at least two standpoints. First, it has provided a sound, scientific plan of operation. It can be stated without fear of successful contradiction that most of the older industrial pension plans were unsound actuarially, and many of them have been found wanting. In the second place, the group annuity scheme as furnished by the life insurance companies makes it possible for small establishments to get the use and advantage of the annuity idea. The insurance company group annuity plan operates on the basis of the law of large numbers, a condition nonexistent in small establishments. Although a number of group annuity plans have been established, the whole field of group annuities is in its infancy. It should be clearly understood that the insurance company stands in a unique position to furnish the employer with all the facilities for setting up a scientifically sound retirement plan for his employees. When properly established on a sound actuarial basis, the group annuity offers many advantages to the employer, such as cutting down labor turnover, approximately meeting a recognized responsibility, providing room for the advancement of the progressive younger employees by retiring the superannuated employees, increasing efficiency through the elimination of the deadwood, and raising the morale of the entire labor force because of the establishment of a sound retirement program.

Now it should not be overlooked that the establishment of the group annuity for employees as a retirement pension involves several difficult problems. Some of the points that must be given careful consideration may be briefly enumerated as follows: (1) whether the plan calls for contribution on the part of the employees or is paid for entirely by the employer; (2) in the event that an employee leaves one position for another, the question of permitting him to carry with him a credit for a portion of his eventual pension that has accrued through the years; (3) eligibility rules for participation as to present and future employees; (4) retirement ages; (5) length of service requirement; (6) amount of annuity to be granted; (7) maximum and minimum annuities; (8) method of financing; and (9) the relation of group annuities for employees to public pension systems.

Group creditor insurance. Creditor or indebtedness insurance, as it is sometimes called, insures the lives of debtors of a creditor under a contract issued to the creditor and written to indemnify the creditor in event of the borrower's death. The existence of an insurable interest on the part of the creditor in the life of the debtor is the basis for this insurance, but some of the states have imposed special laws governing the writing of this insurance. This form of insurance is issued to banks and loan companies on small unsecured personal loans. Loans fully covered by readily marketable collateral are not usually insurable.

Group life insurance. A plan for insuring a large number of individuals under a blanket, called a master, policy, usually without medical examination and at low cost to policyholders, is generally known as *group life insurance.* This type of insurance was legally defined in 1918 by

the National Convention of Insurance Commissioners as:

> That form of life insurance covering not less than fifty employees with or without medical examination, written under a policy issued to the employer, the premium of which is to be paid by the employer or by the employer and employees jointly and insuring only all of his employees, or all of any class or classes thereof determined by conditions pertaining to the employment for amounts of insurance based upon some plan which will preclude individual selection for the benefit of persons other than the employer; provided, however, that when the premium is to be paid by the employer and employee jointly and the benefits of the policy are offered to all eligible employees, not less than seventy-five per centum of such employees may be so insured.

Most of the states follow substantially the above definition of group life insurance. However, in recent years the Insurance Commissioners have given some thought to a change in this old definition. Most of the states permit more "other classifications" than a strict interpretation of the definition would seem to warrant, to be eligible for group life insurance. This definition really covers in a brief manner the essential features of group life insurance. A minimum of 50 individuals is fixed so as to insure the working of the law of average so far as the mortality of the group is concerned. Although a medical examination is not required by the companies as a rule, some states make a medical examination a necessity. Some companies require a medical examination if the employee applies 31 days after the date of eligibility. Generally, the policy is issued to the employer and differs from the usual life contract in that it is usually a yearly renewable term form of policy. A certificate of insurance is generally issued to each individual employee stating such facts as: (1) amount of insurance; (2) beneficiary; (3) conversion privileges; and (4) other special provisions and benefits.

Premiums under a group policy may be paid entirely by the employer or entirely by the employee, or each may contribute a proportionate amount of the cost. When a joint payment is made, the definition of group insurance requires that the insurance must be offered to all eligible workers and that at least 75 per cent of the employees must be so insured. The premium for a group insurance policy is lower than for a corresponding amount of ordinary life insurance because of the lower loading expenses, lower commissions, and elimination of medical examinations. The usual range in premium cost to the employee is from 60 to 85 cents per month per $1,000 protection. Each employee may designate his own beneficiary under a group policy. The policy may generally be converted to an individual permanent policy, without medical examination, within 31 days after termination of employment.

Group pensions. The group retirement annuity is essentially a pension plan. Under this arrangement the employees of a common employer receive annuity payments beginning at a specified age and continuing throughout the lifetime of the employee. *See* Group annuity.

Group selection. The demand for group insurance in various forms came chiefly from employers who wanted to provide life insurance for all their employees. The demand for group insurance also involved a desire to discard individual selection by medical examination. Instead, the whole group was to be insured and selection made on a different

basis. The principal features of a group selection have been set forth briefly as follows:

(A) To obtain a body of risks selected for purposes requiring physical and moral fitness.

(B) To see that the group is acceptable as a whole, or in classes not inferior in point of insurability to the group as a whole.

(C) To grade the risks properly at the standard rate or at a commensurate extra premium rate for acceptable additional hazard.

The mere statement of these three general subdivisions governing selection narrows down the acceptance of groups without medical examination closely to (a) employees of one employer; (b) where all or substantially all lives must be included in the group except as certain whole departments or sexes or probationers are excluded; and (c) where the grade of employees and the occupation and incidental hazards measure up to required standards or else can be adjusted by commensurate extra premium ratings within the range or reasonable additions to the standard rates.

A large group continually receiving new members will have a mortality rate without much danger of adverse selection. A careful inspection of a group of employees is essential, however, before writing a group policy. Such an inspection should also include investigations of employees and plants. Moreover, sex, nationality, wage, sobriety, and requirements for employment are important individual factors. Also, trade dusts and trade diseases are important in character and in ratio to the number of the whole so exposed. The buildings and surroundings must be carefully looked over in regard to proper air, sanitation, hygiene, pure drinking water, and so forth, and with reference to accident and panic hazards.

In writing group insurance of any kind, precautions must be taken to guard against adverse individual selection. It is essential, therefore, to insure the group on a basis that does not leave the individual the right to determine whether or not he or she will enter the group. If the individual employee must pay for the insurance, frequently adverse selection is likely to take place because those who feel they need the insurance will carry it whereas the better risks will not pay for the protection. Because of these reasons, and because of the cost of individual medical examinations, group insurance is in a large degree restricted to the insurance of employees of one employer where the employer pays the entire premium charge.

Group thrift insurance. *Group thrift insurance* is a contract of life insurance which is divided into three parts. These parts are: (1) pure endowment at age 60; (2) basic group life insurance; and (3) increasing group life insurance. Each of these three forms of insurance protection gives a payment of $1,000 if the policyholder attains the age of 60 and continues his payments up to that time. If death occurs before age 60, the insured's beneficiary receives nothing under part one of the contract. If, however, death occurs before age 60, the basic group life insurance part of the contract enables $1,000 to be paid to the beneficiary as a death claim under this second part of the thrift contract. As deposits continue and a fund accumulates, the increasing group life part of the contract likewise grows in value. This part of the contract is arranged on a sliding scale so that this phase of the policy increases in face value from

nothing at the time the contract is taken out to $1,000 when the policyholder reaches age 60. It is from this part of the policy that the return of deposits to the beneficiary is made possible in event of the policyholder's death. To summarize this form of insurance, then, in case the employee lives to age 60, he receives $1,000 under part one; under the other two parts, nothing. However, the policyholder's beneficiary, if the policyholder dies before 60, receives $1,000 under part two and a varying amount under part three.

Guaranteed dividend. In life insurance, or participating insurance of any kind, this would be a fixed sum of money that would be paid the policyholder at stipulated periods. Such a term is more theoretical than real in insurance practices for the exact amount of dividends to be paid in mutual companies cannot be determined in advance. The term, therefore, is a misnomer. Where, however, some companies issue a so-called guarantee dividend policy, the transaction amounts to an extra benefit for which an additional premium is charged. *See* Dividend payments.

Guaranteed value. *See* Nonforfeiture options.

H

Habitat premium. *See* Foreign travel.

Habits of insured. The acceptability and insurability of an applicant for life insurance depend to some extent on his habits. Questions on the application usually inquire into habits in regard to the use of alcoholic beverages and narcotics. Intemperance in these matters are a part of the moral hazard. Insurance companies often rely on inspection reports for a check-up of information relative to the applicant's habits, his social environment, and mode of living. Abnormal standards of behavior may be a cause for declination of the risk.

Half rate policy. *See* Increasing premium policy.

Hazard. This word is often used interchangeably with risk, uncertainty, chance, danger, and casualty. In life insurance risks may be classified in terms of the hazard involved. The following elements may enter into the hazard: (1) age; (2) occupation; (3) health; and (4) location. A classification of "hazard" primarily on the basis of "loss-cause" or source is given in Kulp, *Casualty Insurance,* 1942, pp. 4–7. A classification of risk on the basis of loss is given in Riegel and Loman, *Insurance Principles and Practices,* 1942, p. 21. *See* Risk.

Health of insured. Unhealthy lives are not insured except at an extra premium or with special limitations and restrictions. Agents are not allowed to deliver a policy unless the applicant is found in good health. One purpose of the medical examination is to determine the health of the applicant.

The general principle supported by numerous court decisions is that, since statements regarding health are material to the risk, the intentional making of false statements about such matters voids the policy. In some cases, however, the rule has been modified and limited. In Missouri, where the statute stipulates that no misrepresentation shall void a policy unless the fact misrepresented contributed to the death of the insured, it has been held that misrepresentations about the insured's health do not void the policy unless the condition misrepresented was a contributing cause of death. Usually, if no inquiry is made by the insurer, a failure of the applicant to make such statements is not considered fraudulent. The same has also been asserted in the case of the insured's

giving partial disclosure or an answer which should put the company on guard. It is usually considered the duty of the company to follow up such answers by other inquiries. When statements are represented by the insured to be true to the best of his knowledge, such knowledge and intent of the insured has been considered of importance by some courts, although other courts have asserted that the knowledge or intent of the insured is not material. The rule laid down by some cases is that the insured cannot be supposed to reveal facts about latent diseases of which he may not be aware or that the insured is not obligated to reveal every slight or temporary indisposition he has suffered without leaving any effect on his health or tendency to reoccur.

Serious illness has been held to mean a disability generally leaving some permanent effect on the system, and increasing the hazard of illness or death. *Good health,* or *sound health,* has been defined as general freedom from disease or derangements of organic functions impairing the system. A person may be in good health and suffer some slight indisposition. *See* Application; Medical examination; and, in Section Two, Physical defect of insured.

Height of insured. In some forms of personal insurance, such as life, health, and accident insurance, the height of the applicant may be a factor for the underwriter to take into consideration. As a general rule height and weight are considered together and there is a high degree of correlation between the two factors. Extremes of height, shortness or tallness, are sometimes considered unfavorable factors to health and longevity. For these reasons, underwriters desire to secure exact facts about the height as well as the weight of persons being considered for such insurance. The following is a typical table showing the height and weight at varying ages for life insurance:

Minimum and Maximum Weights At Various Heights and Ages

(Indicated by Light and Heavy-Face Figures, Respectively)

MALES

AGES Ft.	In.	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-65
5	0	82 **163**	83 **166**	84 **166**	87 **166**	89 **166**	92 **166**	94 **166**	95 **166**
5	1	84 **165**	85 **168**	86 **168**	89 **168**	91 **168**	94 **168**	96 **168**	97 **168**
5	2	86 **167**	87 **170**	88 **170**	91 **170**	93 **170**	96 **170**	98 **170**	99 **170**
5	3	89 **170**	90 **173**	91 **173**	94 **173**	96 **173**	99 **173**	101 **173**	102 **173**
5	4	92 **173**	93 **176**	94 **176**	97 **176**	100 **176**	102 **176**	104 **176**	105 **176**
5	5	96 **177**	97 **180**	98 **180**	101 **180**	104 **180**	106 **180**	108 **180**	109 **120**
5	6	100 **183**	101 **186**	102 **186**	105 **186**	108 **186**	110 **186**	112 **186**	113 **186**
5	7	105 **188**	105 **191**	106 **191**	109 **191**	112 **191**	114 **191**	116 **192**	118 **192**
5	8	109 **192**	109 **195**	110 **195**	114 **196**	117 **196**	119 **196**	121 **197**	123 **197**
5	9	113 **196**	113 **199**	114 **199**	118 **200**	122 **200**	124 **200**	126 **201**	128 **202**
5	10	119 **198**	119 **202**	120 **202**	123 **203**	127 **204**	129 **205**	131 **206**	133 **207**
5	11	128 **200**	128 **204**	129 **205**	131 **206**	132 **208**	133 **210**	134 **212**	137 **213**
6	0	136 **202**	136 **206**	137 **208**	139 **210**	140 **212**	140 **214**	140 **216**	141 **218**
6	1	143 **204**	143 **209**	144 **213**	145 **216**	145 **218**	145 **220**	145 **223**	145 **225**
6	2	150 **207**	150 **212**	151 **217**	152 **222**	152 **225**	152 **227**	152 **230**	152 **231**
6	3	156 **210**	156 **215**	157 **220**	158 **225**	153 **229**	158 **232**	158 **235**	158 **236**

High interest policies. These are policies of life insurance which provide for the payment of an interest income to the beneficiary in excess of the actual interest that the company may earn. Most companies provide for installment payments at some relatively "low" guaranteed rate and

credit the payments with any "excess" interest that may be earned. But a "high" interest policy often guarantees more than the "low" interest and the "excess" interest combined. This high interest payment is accomplished by the charge of an additional premium which enables the company to pay this extra sum or annuity. Some of the names for these policies are "5% debentures," "6% gold bonds" or "7% consols." It will be found that the premium for policies of this nature is higher than for a corresponding "low" and "excess" interest contract.

Historical development. For information on the history and evolution of life insurance see: (1) Hutcheson, "The Evolution of Life Insurance," *Transactions of the Actuarial Society of America,* Vol. XXI, Part Two, No. 64 and bibliography on page 364; (2) *The Documentary History of Insurance* (1000 B. C.—1875 A. D.), The Prudential Press, Newark, New Jersey, 1915; (3) MacLean, *Life Insurance,* 6th ed., Chapter XXI; and (4) Magee, *Life Insurance,* 1939, Chapter 3.

Home office. For insurance companies, *home office* refers to the offices of the company executives, such as president, vice presidents, secretaries, and treasurers, who have general supervision over underwriting, agency, claim, actuarial departments, and so forth. The term *home office* is used in contrast to the term *field organization,* this latter term designating the general agency, branch office, and local agency plant of a company. *See* Field force.

Home protection policy. The primary purpose of this policy is to pay off the balance due on a mortgage in event of the death of the home owner. A decreasing term insurance policy, the rate of reduction each year depending on the mortgage, is sometimes used for this protection. *See* Mortgage redemption policy.

Homicide. The killing of a human being by human agency is known as homicide. Excusable homicide is an accidental or nonintentional act. Felonious homicide is a willful act; justifiable homicide is an intentional act under such circumstances as render it proper and without fault. The double indemnity provision of some life insurance policies does not cover homicide or intentional injuries inflicted by another person. For life insurance purposes, a distinction must be made between homicide and suicide. *See* Suicide; Violation of law.

Hunter's Table. This was a table compiled by Arthur Hunter on disability rates under the disability benefits of life insurance. Subsequent company experience has shown that the rates of disability are higher than as indicated in Hunter's Disability Table.

I

Identical risk. Life insurance is written on the assumption that every risk is equal to every other risk in terms of premium payment. If the risk is not the same, either the premium is higher or the benefits are less. This identity or equality of risk is the basis of the equitable distribution of the cost. Adjustments in premiums must be made for substandard risks. *See* Substandard insurance.

Illegal practices. Rebating and twisting, often called illegal practices, are in violation of the laws of almost all states. Life insurance companies often instruct their agents on the illegality of rebating, twisting, misrepresentation, and misappropriation of funds. *See* Rebating; Twisting.

Illinois Standard. This has been the most widely used plan for modifying the use of the full preliminary term

system of reserve valuation. Under the Illinois Standard, a reserve is required at the end of the first policy year for all policies on which the premium rate is higher than that charged for a 20-payment life policy. To state the code requirement in another way: if premiums are payable for less than 20 years, the full reserve must be made up by the end of the premium-payment period. If premiums are payable for longer than 20 years, and provided the premium is in excess of the 20-pay life premium, the full reserve must be made up in 20 years. A fully preliminary term plan could be used under this system, therefore, for all policies for which the premium charged does not exceed the premium for the 20-pay life policy.

The object of this code is to restrict the first-year expenses that would be available under higher premium-paying policies on the full preliminary term plan, and to regulate the amount of the reserve. It is significant to note that the new Standard Nonforfeiture Law, which will become universally operative, follows very closely this Illinois Standard. *See* Modified preliminary term plan.

Imbecility. *See* Sane or insane; Suicide.

Immediate annuities. An immediate life annuity, generally speaking, is one under which the life income to the annuitant begins at the end of the first income payment interval following the purchase of the annuity. In other words, the first income is paid by the insurer to the annuitant at the end of the first year from the date of the contract, if the annuity is payable annually; at the end of the first six months, if it is payable semiannually; at the end of the first three months, if it is payable quarterly; or at the end of the first month, if it is payable monthly. Thereafter during the entire lifetime of the annuitant these payments under immediate life annuities will be made by the insurer at the end of each succeeding like interval.

These immediate life annuities require a lump sum payment in advance of the entire purchase price, called a *single premium.* Usually substantial amounts are involved in these single premiums; therefore the company must have the money at hand for immediate investment in order to be able to carry out the terms of the agreement. The income payments to the annuitant are computed from this date of purchase. An immediate life annuity contract is not generally delivered to the annuitant until this payment to the company has been made. The exact regulations of the companies may vary on these particular points, but according to the rules of one company, if the premium is not reported within 15 days of the date of the purchase, the contract must be returned to the company for cancellation or reissue. The rule of another company states that no time will be given the agency for settlement of the premiums on immediate life annuities, and that if the single premiums are not reported to the home office within ten days from the date of mailing the contract, interest at the rate of six per cent will be charged on the single premium from the date of the contract to the date the premium is reported to the home office. Usually, where the single premium is paid by check, the home office must be notified by its local agency when such check has actually been collected. Notes are not taken in settlement of the single premiums.

Various forms of immediate life annuities are now available from the many life insurance companies writing such annuities. The more im-

portant and common types are: (1) life annuity; (2) various life annuities with refund provisions, including the installment refund life annuity, cash refund life annuity, fifty per cent refund life annuity, and life annuity with certain number of payments guaranteed; (3) joint life and survivorship annuity; (4) immediate temporary annuity with refund provision; and (5) special life annuity with a death benefit of one half of the purchase price. *See* Life annuities; Refund annuity; Deferred annuities.

Impairments. Impairments are conditions that produce an extra hazard and result in the life insurance applicant's being classified as below average or substandard. Many companies provide a listing in their rate manuals of the more important types of impairments. In a broad way these impairments are due to: (1) physical condition of applicant; (2) personal history; (3) moral hazard; (4) occupation; (5) residence or travel in an unhealthful climate; and (6) family history. *See* Substandard insurance.

Inception of a policy. The inception date of a policy is the time at which the contract attaches or the insurance is in effect. Many policies write on the face of the contract the "date of issue" of the policy. *See* Effective date of policy.

Incidents of ownership. The incidents of ownership in a life insurance policy are the right to change the beneficiary, and the right to the equities in the contract. Equities consist of the nonforfeiture provisions and loan values. *See* Nonforfeiture options; Federal taxes.

Income and disbursements. The leading sources of income for a life insurance company are premiums from policyholders and interest on investments. The chief expenditures are payments to policyholders and/or beneficiaries, operating expenses, and taxes. The following is a typical income and disbursement account of a life insurance company:

Receipts:	
Premiums for Insurance . .	$28,532,577 74
Premiums for Annuities ..	3,590 539 91
Interest, Rents, etc.	11,733,526 11
Policy Proceeds and Dividends Left with the Company under Contract	6,862,800 44
All Other Income	2,286,860 93
Total	$53,006,305 13
Disbursements:	
Claims by Death	$ 7,136,569 26
Matured Endowments	2,162,506.88
Dividends to Policyholders ..	2,241,053 09
Surrender Values	1,812,388 25
Annuity and Disability Payments	3,855,997 17
Total Paid Policyholders	$17,208,514.65
Payments under Installment Contracts and of Dividends Left with the Company at Interest	$ 3,934,839.28
Taxes and Insurance Department Fees	1,083,259.45
Commissions, Compensation and Fees to Agents and Medical Examiners, and Agency Expenses	2,465,094 28
All Other Expenditures	2,008,234 84
Asset Adjustments	490,713 27
Excess of Income over Disbursements (added to Assets)	25,815,649.36
Total	$53,006,305.13

Income bond. *See* Retirement annuities.

Income endowment policy. The benefits provided by the income endowment policy are:

1. In event of insured's death during endowment period: face amount of policy or cash value, whichever is greater, payable in a single sum.

2. In event of insured's survival to the maturity date: (a) cash option of $1,923 if maturity is at age 55, $1,-757 at age 60, or $1,592 at age 65, for each $1,000 of face amount, or (b)

monthly life income to the insured of $10 for each $1,000 of face amount. The only distinction between male and female insured lives is that such monthly life income shall be guaranteed in the case of a male life for a minimum term of years sufficient to make the aggregate of the monthly income payments at least equal to the cash option (installment refund annuity), and in the case of a female life for a minimum term of ten years.

In an ordinary endowment policy, the amount payable at maturity, if the insured survives, is the same as the amount payable on the death of the insured during the endowment period, assuming that premiums are duly paid and that the settlement is not affected by dividends, indebtedness, and so forth.

The income endowment policy is similar in many respects to the ordinary endowment, but the amount payable at the maturity date if the insured survives exceeds the face amount of insurance, because the latter would not be sufficient at maturity to provide the life income of $10 monthly.

Income policy. In life insurance practice, income policies give insurance that provides for the payment of an income to the beneficiary rather than a lump sum. For a good many years, life insurance companies paid the proceeds of policies upon the death of the policyholder to the beneficiary in one single sum. It has been said that many beneficiaries were unable to handle properly these proceeds on account of very little experience. Accordingly, in recent years, many life insurance companies have advocated the payment of the proceeds under life insurance in regular intervals as income over a period of a time instead of in one lump sum settlement. The face value of the policy may be written on the income plan. The usual life insurance policy also specifies under the optional settlement section various types of income insurance arrangement. Provision may be made that the sum insured shall be paid in annual, semiannual, quarterly, or monthly installments instead of in one lump sum. These installments are distributed over a period ranging from ten to twenty-five years, as may be selected, or may be made continuous throughout the life of the beneficiary. In such a policy, the age of the beneficiary is, of course, of importance—the younger the beneficiary, the higher the rate. Such "installment settlement" changes the ordinary life policy from the usual "lump sum" payment to what is called an *income policy*.

Authorities have estimated that one third of the vast sum paid in death claims is dissipated through the beneficiaries' inexperience or improvident or bad judgment. Installment or income insurance relieves the beneficiary of the burden of investing the proceeds of the policy.

The term *income insurance* is frequently used to describe the disability benefits payable under a life insurance policy, and an accident and sickness policy.

Income settlements. The proceeds of a life insurance policy may be paid in a lump sum or in some form of income settlement. The following is typical of the different kinds of income settlements:

1. The money is left in a trust fund until withdrawn at guaranteed interest.

2. The money is paid in income installments distributed over a number of years; or part of the money is paid in a lump sum and the balance paid in installments.

3. An income is made certain of for a guaranteed period of either 10, 15, or 20 years, as may be selected,

and for as many years thereafter as the recipient may live.

4. Purchase of a life annuity or a refund annuity is effected at the attained age of the payee.

5. An income of any desired amount is paid monthly, the payments to continue until the net sum payable under the policy with interest accumulations is exhausted. *See* Optional modes of settlement.

Income tax. *See* Federal taxes.

Incomplete comparison. This phrase means the withholding of material facts relating to representations or comparisons of companies or policies by any person for the purpose of inducing, or tending to induce, a policyholder in any company to lapse, forfeit, change, or surrender his insurance. Agents and brokers are not allowed under the laws of many states to make any misleading representations in comparisons of companies or policies. *See* Twisting; Misrepresentation.

Incontestable clause. Present-day life insurance policies contain a clause which specifies that the policy is incontestable after a definite period (usually one or two years) from the date of issue except for nonpayment of premiums. This means that payment of the policy cannot be disputed by the company for any cause except nonpayment of premiums after the expiration of this period. A distinction between incontestability of a policy and the nonforfeitable features of a policy should be kept in mind. The early clauses usually made the policy incontestable from its date, but subsequent experience indicated that this practice was not usually advisable. A typical incontestable provision reads as follows:

> This policy shall be incontestable after it has been in force during the lifetime of the Insured for a period of two years from its date except (a) for nonpayment of premiums, (b) with respect to insurance, if any relating to total and permanent disability benefits and (c) with respect to insurance, if any, relating to death by accidental means.

Such a provision means that the company, if it wishes to contest the policy, except for nonpayment of premiums and other exceptions mentioned, must do so within two years. The object of the incontestable clause has been to win popular favor and to make the life insurance policy attractive. Moreover, the incontestable clause tends to minimize litigation. The laws of some states require that this clause be included in the policy. For example, the insurance laws of North Dakota state:

> The policy constitutes the entire contract between the parties and shall be incontestable from its date, except for nonpayment of premiums and except as otherwise provided in this policy. All statements made by the insured shall in the absence of fraud be deemed representations and not warranties, and no such statement shall void this policy, unless it is contained in written application and a copy of such application shall be endorsed upon or attached to this policy when issued. If the age of the insured has been understated, the amount payable hereunder shall be such as the premium paid would have purchased at the correct age.

The courts have agreed that a clause making the policy indisputable after it has been in force a certain time is valid, but there has been some question as to a contract with a clause making it incontestable from its date. In a few states, it has been held that the death of the insured within this period suspends the effect of this clause. The general rule, however, seems to be that the death of the insured within this period is

immaterial and does not suspend the force of the clause. Some courts have held that the incontestable clause does not prevent a defense from being set up if insurance is procured by intentional fraud, but the weight of authority indicates that such defense is covered by the clause, unless excepted. Generally, the date of the period is held to begin with the date of the policy and not the date of the delivery of the policy to the insured.

Policies may also contain provisions, if included at the time of issue, specifying restrictions under "war clauses." The terms and conditions of these war clauses vary somewhat among the companies.

Incorporation. *Incorporation* refers to the legal or statutory requirements for the incorporation of domestic insurance companies and the requirements for admission of companies of other states. The various state laws have provided different methods of incorporation, so that insurance companies may be incorporated in no less than three different ways: (1) by special act of the state legislature; (2) under the general corporation laws; (3) by specially developed incorporation laws applying specifically to insurance companies. This latter is the method in use at the present time. Generally speaking, the laws relating to the incorporation of a stock insurance company provide that the charter or articles of incorporation must give the following information: (1) names and addresses of the incorporators; (2) the name and location of the company; (3) the kind of insurance to be transacted; (4) the mode in which the corporate powers are exercised, including provision for directors; (5) the amount paid in capital and surplus.

Increase in age. *See* Advance-in-age plan.

Increasing disability benefits. The usual provision in event of disability is a waiver of premium and/or payment of a monthly income for life at the standard rate of $5 per $1,000 face value of insurance. In some cases, after a period of five years, the standard amount of disability payment is increased to $10 or $15 per $1,000. The reverse of this plan is to give a "decreasing disability" amount, which tends, perhaps, to lessen the incentive to prolong disability as might be the impetus under the "increasing disability" scheme. *See* Disability benefits.

Increasing insurance. Sometimes, a life insurance policy may contain a clause providing for an increase in the face value of the policy each year the policy remains in force. The exact nature of this increasing insurance varies with different companies. One company provides, for example, that the death benefit payable increases at intervals of every five years until death. Another company stipulates in its contract that this increasing insurance continues for a certain number of years only and then stops.

Increasing premium policy. This is a whole life policy on which the cost has been distributed in such a manner as to produce a low premium in the first year, gradually increasing by uniform annual amounts during the first ten years to an ultimate level premium. The initial gross premium is in the neighborhood of about one-half the premium for a level ordinary policy, at the same age at issue, and the name "half-rate" policy is sometimes given to this contract. This contract is in no sense a term insurance policy but a permanent plan of coverage. Small cash and nonforfeiture values exist in this preliminary period.

A redistribution of premium pay-

ments in such a way that the premium payment is on an increasing scale is found in so-called "modified life" policies and "economic adjustment" contracts. Other types of increasing premium policies, varying in details, are on the market. *See* Modified life policy.

Indebtedness. Some life insurance policies provide that the company may deduct from the loan value any existing indebtedness to the company and any unpaid installments of the premium for the current policy year. All policies provide that any indebtedness to the company will be deducted from any amount payable in any settlement.

Indemnity. In life insurance the disability benefits are viewed sometimes as indemnity payment. Double or multiple indemnity is provided in case of accidental death. *See* Disability benefits; Double indemnity.

Indisputable policy. *See* Incontestable clause.

Individual insurers. The origin of the idea of life insurance is obscure. In the early stages of its development, some contracts of life insurance were no doubt written by individuals. Where no statute prohibits, individuals may lawfully engage in writing life insurance. Practically, however, the laws in the United States make permanency an essential condition of underwriting life insurance with the result that the business is carried on by corporations or associations in compliance with statutory regulations. Lloyds are often referred to as "individual underwriters." To the extent that "ransom insurance," a form of protection covering the risk of capture by pirates, and the risk of death during a voyage, grew out of marine insurance, in early times these hazards were written by individual insurers. The protection, as it may be noted, was of a short duration, quite unlike the business of life insurance today.

Industrial life insurance. Industrial life insurance is insurance for small sums, chiefly on the lives of wage earners (industrial workers) and members of their immediate families, with premiums payable weekly in amounts of five cents or multiples thereof, and collected, as a rule, from the hands of the policyholders. As explained in the insurance laws of Georgia:

> Industrial life insurance is that insurance for which the stipulated premiums, advance assessments, or dues are regularly payable and collectible weekly or biweekly, and the policies or benefit certificates for which are for sums of not more than five hundred dollars on a single life, and which policies or benefit certificates may provide a weekly benefit for disability, caused by sickness or accident, not greater than twenty dollars a week.

In contrast to so-called *ordinary* life insurance, industrial life insurance is insurance sold in quite small amounts. In ordinary life insurance, policies are written for $1,000 or multiples of that amount, and the premium is based on the age of the individual who takes out the policy. In industrial life insurance, on the other hand, the premium is fixed at, say, five cents or multiples of that amount, and the amount of insurance depends upon the age of the individual taking out the policy.

In industrial life insurance, usually, the premiums are paid weekly, and are collected by the company's agents at the homes of the policyholders. In ordinary life insurance, the premiums are payable either quarterly, semiannually, or annually, as the policyholder desires, and are generally sent to the general agency, branch office, or home office of the company. Industrial life insurance

is adapted to meet the circumstances of persons who can much more conveniently pay these small sums weekly than the large amount, as is the condition in the ordinary life policies. Industrial life insurance is adapted to the needs of persons who have little or no bank account, but do have a weekly pay envelope. It is primarily insurance for the industrial worker and his family, and this is where it gets its name. Industrial policies are, of course, issued to children from one year old and upward, and, because all members of the family may be insured, it is sometimes called *family insurance*. Because experience has shown that the actual mortality among industrial workers is somewhat greater than among persons who are not industrial workers, an industrial mortality table has been made which is used as the basis of industrial insurance rates. The acquisition cost of this insurance is relatively higher than ordinary insurance; consequently the loading factor is comparatively high.

Industrial life insurance had its beginning in certain societies in Europe which were, practically speaking, simply burial societies. They existed in quite large numbers, but were unscientific in their insurance fundamentals, and, consequently, many of them failed as business enterprises. As a scientific insurance business, industrial insurance began in Great Britain. In 1849, the Prudential of London developed out of the Industrial General and was probably the first company to write this kind of insurance. The first weekly premium insurance of any consequence in America was started with what is called the Hildise Bund, a German society, which received premiums weekly and paid them through the Metropolitan Life Insurance Company for quarterly premiums on policies that the company issued to members of the society. A variety of industrial life insurance policies are issued today, and efforts are constantly made by the companies to adapt their policy forms to meet the needs of the industrial workers who are the chief buyers of this insurance.

Under the supervision of the New York Insurance Department, as a result of a law enacted in 1940, two new industrial mortality tables were prepared. These new tables are known as the 1941 Standard Industrial and the 1941 Substandard Industrial. Since 1942 these tables have been used in New York State and a number of other states for the computation of the legal minimum reserve standards for newly issued industrial policies. A comparison of the tabular mortality of industrial risks may be seen from the three different tables:

MORTALITY RATES PER 1,000

Age	1941 Standard Table	1941 Substandard Table	1906 Standard Table
1	31.51	41 19	81 82
5	3.63	4 77	9.46
10	2.60	3.42	3.43
15	2 86	5 51	3.58
20	3.93	8.81	6 90
25	4 73	10 08	9.52
30	5.39	11.25	11.60
35	6.58	13 11	12.98
40	8.71	16.71	14.65
45	12.32	21.60	17.34
50	17.55	28.19	21.64

At their December, 1943, meeting, the National Association of Insurance Commissioners approved a uniform industrial insurance policy bill which defined industrial life insurance as follows: "The term Industrial Life Insurance as used herein shall mean that form of life insurance, the policies for which include the words Industrial policy as part of the descriptive matter; and (a) under which the premiums are payable weekly, or (b) under which the pre-

miums are payable monthly or oftener, but less often than weekly, if the face amount of the insurance provided in such policy is $1,000 or less."

The Temporary National Economic Committee recommended that there should be fundamental changes in the conduct of industrial life insurance. The uniform Industrial Standard Provisions bill suggested the following provisions be made applicable to industrial life insurance:

1. A grace period of four weeks.
2. The policy shall contain the entire contract.
3. Statements of the insured shall be deemed to be representations and not warranties.
4. Policy incontestable after two years.
5. Adjustment of the face amount of the policy if age is misstated.
6. Payment of dividends on participating policies.
7. Paid-up insurance in event of default after three years.
8. Cash values after five years.
9. Allowance to the insured of sixty days in which to select the desired surrender option.
10. Showing of nonforfeiture values available during the first twenty years.
11. Reinstatement within two years.
12. Payment of death claim within two months.
13. A title on the face of the policy briefly describing its form.
14. A provision showing the name of the beneficiary.

On the matter of policy provisions, some of the contracts issued at the present time contain these recommended suggestions. In some cases the present policies are more liberal than the suggested provisions.

Other problems relating to industrial life insurance concern costs, lapses, and types of policies. New York State passed a law on January 1, 1940, prohibiting the sale of the endowment type of policy. This law was changed in 1942, however, to permit the sale of small endowment policies as ordinary contracts. The New York law, of course, does not prohibit domestic companies from issuing endowment type policies outside of New York State.

A comparison of the net costs of industrial and ordinary life insurance was made by the New York State Insurance Department in its 1937 *Special Study of Industrial Insurance.* For other observations on costs and lapses in industrial life insurance see Maurice Taylor, *The Social Cost of Industrial Insurance,* the *Hearings of the Temporary National Economic Committee,* and Malvin E. Davis, *Industrial Life Insurance in the United States.*

Industrial pension plans. *See* Group annuity; Group pensions.

Infant insurance. *See* Juvenile insurance.

Infant mortality. An examination of any mortality table will show the rate of mortality is relatively high for infants. According to the 1941 Standard Industrial Mortality Table the death rate at age one is 31.54 deaths per 1,000. This rate is not reached again until age 59 when it is 33.33 deaths per 1,000. Age 12 has the most favorable rate of mortality under this table. It is only 2.50 deaths per 1,000. This high infant death rate is the reason for the use of the "graded death benefit" table in juvenile policies. *See* Graded death benefits; Juvenile insurance.

Influential contact. *See* Center of influence.

Inheritance tax. *See* Federal taxes.

Initial age. This term is used to indicate the beginning age at which a mortality table starts, such as age 10 in the American Experience Table. The term is also used in a conversion or change of policy to refer to the age at which the premium was fixed under the first policy as distinguished

from the "attained age" of the insured at the time the conversion was made.

Initial reserve. The fund on hand at the beginning of the policy year just after the premium has been received is called the *initial reserve.* In mutual life insurance, the initial reserve plays an important part in the calculation of dividends paid to policyholders. The initial reserve of, say, the ninth year is equal to the terminal reserve of the eighth year plus the net premium payable at the beginning of the ninth year. *See* Terminal reserve; Mean reserve.

Insane. A person who is mentally disordered, mad, crazy, utterly senseless, or a lunatic, is said to be insane. The typical suicide clause in a life insurance policy contains the words *whether sane or insane.* In the absence of these words in the suicide clause, self-destruction by a person mentally disordered will not forfeit his rights, or the rights of other beneficiaries. An act beyond the conscious control of the insured is not his act but rather a misfortune that comes to him. But if the words *sane or insane* are included in the clause the insurance company is exempted from liability in all situations of intentional suicide. *See* Suicide.

Inspection receipt. This is a device used by life insurance companies when an applicant asks to "leave the policy to look it over." By signing the inspection receipt, the applicant testifies he understands the policy has been left for inspection only, that the insurance is not to be in force until settlement is effected—at which time he must be in good health. In other words, the insurance does not become effective until the first premium has actually been paid.

Inspection report. A report upon the advisability of accepting or rejecting a risk is often termed an *inspection report.* Such a report may also, of course, deal with the physical condition or the moral hazard of an insured risk. The purpose of such a report is to guide the underwriting department in rating properly and in insuring the risk. In the selection of risks in life insurance, an inspection report is often made upon the applicants' financial condition, their health, their environment, reputation, and their habits. For many forms of insurance, there are special inspection forms for making such reports of the condition of risk. *See* Selection of risks.

Installment options. *See* Optional modes of settlement.

Installment premiums. In industrial life insurance, premiums are paid on a weekly basis. In ordinary life insurance, premiums may be paid monthly, quarterly, or semiannually, these installments being made to suit the convenience of the assured.

All policies in ordinary life insurance are based on annual premium payments in advance. However, when premiums are paid at other intervals, as they may be paid, a slight additional charge is made as may be seen from the following table:

Semiannual premium equals
51% of the annual premium.

Quarterly premium equals
26% of the annual premium.

Monthly premium equals
8.83% of the annual premium.

Installment refund annuity. *See* Life Annuities.

Installment settlements. *See* Optional modes of settlement.

Insurability. Factors that affect the insurability of an applicant for life insurance cover such items as: (1) health; (2) physical condition; (3) impairments; (4) past medical history; (5) occupation; (6) race; (7) family

history; (8) social conditions; (9) moral hazard; (10) build, including height and weight. Evidence of insurability satisfactory to the company must be given in the case of reinstatement. *See* Reinstatement; Selection of risks.

Insurable interest. The nature of insurable interest in regard to life insurance has been stated in *Warnock v. Davis,* 104 U. S. 775, 26 L. Ed. 924, as follows:

> It is not easy to define with precision what will in all cases constitute an insurable interest so as to take the contract out of the class of wager policies. It may be stated generally, however, to be such an interest, arising from the relations of the party obtaining the insurance, either as creditor of or surety for the assured, or from the ties of blood or marriage to him to justify a reasonable expectation of advantage or benefit from the continuance of his life. It is not necessary that the expectation of advantage or benefit should always be capable of pecuniary estimation, for a parent has an insurable interest in the life of his child, and a child in the life of his parent, a husband in the life of his wife, and a wife in the life of her husband. The natural affection in cases of this kind is considered more powerful—as operating more efficaciously—to protect the life of the insured than any other consideration. But, in all cases there must be a reasonable ground, founded upon the relations of the parties to each other, either pecuniary or of blood or affinity, to expect some benefit or advantage from the continuance of the life of the assured. Otherwise, the contract is a mere wager, by which the party taking the policy is directly interested in the early death of the assured. Such policies have a tendency to create a desire for the event. They are, therefore, independently of any statute on the subject, condemned, as being against public policy.

It will be seen from this definition that to have an insurable interest the beneficiary must be related to the insured by such ties of blood, marriage, or contractual relationship that the death of the insured would materially injure him. In other words, the beneficiary does not have an insurable interest unless he suffers a loss by reason of the death of the insured. Insurable interest is required as a matter of public policy to avoid crime and wagering contracts. In life insurance, the insured and the beneficiary should be seeking not an unearned gain, but to minimize a loss.

Relationships that generally establish the existence of an insurable interest, understanding that every person has an insurable interest in his own life, are: (1) any employer and his valued employee; (2) the several partners of a partnership; (3) a creditor and a debtor; (4) a corporation and an officer thereof; (5) wife in her husband's life; and (6) dependent children. Generally insurance companies will refuse to issue a policy in which the applicant names a beneficiary not in the class of those possessing an insurable interest in his life. *See* Wagering assignment.

Insurance agent. *See* Agent.

Insurance and assurance. The words *insurance* and *assurance* are synonymous according to most authorities and are used interchangeably. Some English writers have used the term *assurance* in connection with the duration of life and *insurance* in connection with contracts relating to any other uncertain event. Another distinction has been made to the effect that *insurance* represents the practice and *assurance* the principle. Literally, the word *insurance* means the act of making certain or secure. Both words are ultimately derived from the Latin *ad,* to, plus *securus,* sure or secure, through Old French and Middle English. In Middle English *ensuren* came into use as an apparent variant of *assuren* through a change of prefix; consequently, the

two terms grew up side by side. The word *assurance* is generally used in England.

Insurance broker. *See* Broker.

Insurance carrier. The term *insurance carrier* may refer to any private or public insurance company, corporation, mutual association, reciprocal or interinsurance exchange, Lloyds association, or state insurance fund. The two most important types of carriers in the United States are the mutual and stock companies. There are in the United States, at the present time, about 600 life insurance carriers, both stock and mutual. There are more than 300 stock fire insurance companies and no less than 2,500 mutuals. There are more than 600 casualty companies, including stock, mutual, and reciprocal.

Insurance commissioner. *See* Supervision and regulation of insurance.

Insurance company. The term *insurance company* is defined by the insurance laws of some of the states. For example, the laws of Alabama specify:

> The term "insurance company," as used in this act, shall include fire, life, benefit, accident, indemnity, fidelity, guaranty, employers' liability, casualty, plate glass, burglary, automobile, tornado, windstorm, cyclone, mutual aid or industrial companies or associations or any other insurance company charging a premium for contracts entered into by such companies, but shall not include fraternal insurance companies which are conducted for the purpose of insuring members only, such as Mason, Oddfellows, Knights of Pythias, and similar orders.

An insurance company can write insurance only against the casualties and risks it is authorized by its charter or articles of association to insure against. An insurance company is permitted to carry on transactions that are necessarily incident to and implied from its right to conduct the insurance business, but it cannot carry on such operations as a principal business. For example, an insurance company may not transact a building and loan association business, but it can invest its capital in bonds and mortgages and so forth. *See* Insurance carrier; Mutual company; Stock company; Supervision and regulation.

Insurance contract. An insurance contract is an agreement by which one party, for a consideration adequate to the risk, undertakes to make a certain payment, usually in money, or to render its equivalent value (or to do some act of value) to the other party in case of loss, damage, or liability in consequence of an uncertain or unexpected occurrence. Insurance is defined by S. Gray, in *Commonwealth v. Weatherbee,* 105 Mass. 149, as "an agreement by which one party, for a consideration (which is usually paid in money either in one sum or at different times during the continuance of the risk), promises to make a certain payment of money upon the destruction or injury of something in which the other party has an interest." "Insurance, strictly defined," says Joyce, "is a contract whereby one for a consideration agrees to indemnify another for liability, damage, or loss by certain perils to which the subject may be exposed, but the contracts of life insurance and of accident insurance covering death are not strictly contracts of indemnity." However, indemnity is said to be the fundamental principle of property insurance, that is, the reimbursement of the insured in the event of a loss, to the value of the property which he has lost or had damaged. Insurance contract is defined by the insurance laws of various states, of which the following definition from the insurance laws of Idaho is an example:

Insurance is a contract where one party, called the "insurer," for a consideration undertakes to pay money or its equivalent, or to do an act valuable to another party, called the "insured" or to his "beneficiary," upon the happening of the hazard or peril insured against, whereby the party insured or his beneficiary suffers loss or injury.

Risk is an essential characteristic of every transaction of insurance, and this is the factor assumed by the insurance company. The acceptance of the risk that the life or property of the other party is liable to encounter is the primary requisite to the contract of insurance. This risk to be assumed by the insurer must not be too great, and there must be a sufficient number exposed to such a risk so that the chance of the occurrence of the peril may be estimated with some degree of certainty before the contract is issued. A sound contract of insurance is one made in accordance with the loss experience of the company. Insurance contracts may be issued to cover different kinds of property or interest and provide payments for loss or damage from many types of risks. A single insurance contract may be written to cover more than one risk. For example, a disability policy covers the risks of accidental injury and sickness; an automobile policy may cover public liability, property damage, and collision, or it may cover collision, fire, transportation perils, and theft. Illustrations of some of the more important forms or contracts of insurance are:

1. Marine insurance, covering against the perils of the sea (*Matheson v. Equitable Marine Ins. Co.*, 118 Mass. 209, 19 Am. Rep. 441).
2. Fire insurance, covering against loss or damage to property by fire (*Insurance Co. v. Haven*, 95 U. S. 242, 24 L. Ed. 473).
3. Hail, tornado, etc., insurance (*Mutual Fire Ins. Co. v. Dehaven*, 5 Atl. 65, 18 Weekly Notes Cas. 125; *Barret v. Des Moines Hail and Cyclone Insurance Ass'n*, 120 Iowa 184, 94 N. W. 473).
4. Life insurance, covering against loss or damage due to the death of the person insured (*Commonwealth v. Wetherbee*, 105 Mass. 149).
5. Accident insurance, covering against loss arising from accidental injury to the person covered and causing disability or death (*Standard Life and Acc. Ins. Co. v. Carroll*, 86 Fed. 567, 30 C. C. A. 253, 41 L. R. A. 194).
6. Health insurance, covering against loss arising from illness causing disability (*Whalen v. Equitable Acc. Co.*, 99 Me. 231, 55 Atl. 1057).
7. Insurance against loss or damage to property by accident.
8. Insurance against loss or damage to property by burglary, theft, or robbery.
9. Insurance against loss resulting from strikes by employees.
10. Insurance against loss resulting from liability of employers for injuries to employees.
11. Insurance against loss arising from liability for injuries to other persons.
12. Insurance against loss resulting from dishonesty of employees.
13. Insurance against loss arising from insolvency of debtors.
14. Insurance against loss due to defects in titles to land.
15. Insurance against loss arising from failure to perform contracts.

The principal features of such contracts in addition to the element of risk are the consideration, the indemnity, legal insurable interest, meeting of the minds, and good faith and fair dealing. The consideration is the premium for the insurer's undertaking; and the indemnity is that which is promised to the assured in case he suffers loss or damage through such risk.

In answer to the inquiry as to what is the subject of insurance, it may be said from a technical viewpoint that the interest of the party securing the

insurance is the thing for which indemnity is promised. For example, though it is the usual thing in fire insurance to say that the building is insured, or in automobile insurance to say that the automobile is insured, nevertheless, the thing insured is usually not the building or the automobile but the *interest* of the person or persons in the continued existence of the building or automobile. For such reasons, even property insurance contracts have been considered as personal contracts, for the insurance is a contract to indemnify the party interested in the subject of the insurance against loss or damage to such property.

The insurance contract is considered as a voluntary contract, and the fact that the contract used is a standard form required by law does not affect its voluntary nature. If the policyholder objects to the policy conditions, usually he does not have to accept them. He can refuse to accept the policy and refuse to pay the premium, except in the case of certain compulsory insurance.

The contract of insurance is known as a *conditional contract,* and not an absolute agreement for the settlement for the loss. For example, under certain contracts, certain losses are often excepted, or losses from certain causes, or property may not be covered if it is removed from the insured premises, and so forth. Likewise, the contract may never attach by reason of the failure of the assured to pay the premium or some act by the assured affecting the risk, such as increasing the hazard.

The rule has been asserted that the intention of the parties to the contract must be interpreted from the language of the policy, including all its clauses and conditions, and the application, if it is made a part of the policy. The words in a policy of insurance are generally interpreted against the insurer where the policy is so framed as to leave room for two constructions. Or it may be said that, if a policy of insurance is ambiguous and susceptible of two constructions, that one is to be adopted which is more favorable to the assured.

Various principles have controlled the interpretation of the operation of the insurance contract. Although subject to exceptions in some cases, the general rule is that the interpretation of the construction of the contract is governed usually by the law of the place where the contract is made, although subject to considerations of public policy of the state where the subject matter is located. In some cases, it has been held that the law of the place where the contract is to be performed will control its construction. It seems to have been held in some cases that the law of the domicile of the insurance company controls.

The general presumption is that an insurance contract is valid. An insurance contract which is only invalid in part not affecting the whole does not become invalid, as a rule. *See* Insurable interest; Insurance not commerce; Uses of insurance.

Insurance defined. *See* Definition of insurance; Insurance contract.

Insurance department of state. In most states, there is a separate department of state which is called the *insurance department.* Such a department has charge of executing the insurance laws of the state. The head of the department is often known as the *insurance commissioner* or *commissioner of insurance* in most states. In seven states the title of *superintendent of insurance* is used; in two states the official is called the *director of insurance.* Where there is no separate state department, the audi-

tor or treasurer of the state may execute the insurance laws. In three states the controlling official has power over both insurance and banking. In some states, this department has control over all types of insurance companies; in others it is limited.

In brief, the duties of this department which have been imposed by statute include: incorporation of domestic companies, supervising such companies, licensing foreign companies, requiring annual statements, examination of companies, licensing agents and brokers, acting as receiver or liquidator of insolvent companies, making reports to governor or legislator. These departments also have undertaken to investigate complaints of policyholders, to give general information regarding insurance, and to help and advise insurance companies. *See* Supervision and regulation of insurance.

Insurance exhibit. *See* Gain and loss exhibit.

Insurance in force. A distinction is made between "insurance written" and "insurance in force." The written insurance is often reduced by lapses, surrenders, and other terminations so that the amount of insurance that is left on the books of the company is the insurance in force. For detailed figures on the amount of insurance in force, see the reports of the Spectator Company, Alfred M. Best Company, National Underwriter, and Flitcraft.

Insurance law. In many states, the insurance companies are regulated by a code of insurance law to which all the insurance companies writing business in the state are subject. These laws which regulate the insurance companies are usually very liberally construed for the well-being of the policyholders. The law of insurance is a specialized subject and many excellent volumes have been written devoted exclusively to this topic. For a detailed account of insurance law see Arnould, *The Law of Marine Insurance,* Cooley, *Briefs on the Law of Insurance,* Couch, *Cyclopedia of Insurance Law,* Richards, *The Law of Insurance,* Vance, *Handbook of the Law of Insurance,* and Patterson, *Essentials of Insurance Law.*

Insurance not commerce. The subject of insurance is not mentioned in the Constitution of the United States. The principle has been established for over 75 years, however, that a policy of insurance is not a transaction of commerce or an article of commerce. The Supreme Court of the United States, in the case of *Paul v. Virginia 8 Wall.* (75 U. S.) p. 183, held that:

> Issuing a policy of insurance is not a transaction of commerce. The policies are simple contracts of indemnity against loss by fire, entered into between the corporations and the assured, for a consideration paid to the latter. These contracts are not articles of commerce in any proper meaning of the word. They are not subjects of trade and barter offered in the market as something having an existence and value independent of the parties to them. They are not commodities to be shipped or forwarded from one state to another, and then put up for sale. They are like other personal contracts between parties which are completed by the signature and the transfer of the consideration. Such contracts are not inter-state transactions, though the parties may be domiciled in different States. The policies do not take effect—are not executed contracts—until delivered by the agent in Virginia. They are, then, local transactions, and are governed by the local law. They do not constitute a part of the commerce between the States any more than a contract for the purchase and sale of goods in Virginia by a citizen of New York whilst in Virginia would constitute a portion of such commerce.

Likewise, it was stated by Mr. Justice McKenna (*New York Life Ins. Co. v. Cravens,* 178 U. S. 401) that:

> The business of insurance is not commerce. The contract of insurance is not an instrumentality of commerce. The making of such a contract is a mere incident of commercial intercourse, and in this respect there is no difference whatever between insurance against fire and insurance against perils of the sea. And we add, or against the uncertainty of man's mortality.

The consequence of this legal conception that insurance is not commerce is that insurance is subject to the regulation and control of the various states and not the Federal Government. But in the South-Eastern Underwriter's case, it was decided by the Supreme Court on June 5, 1944, that insurance companies which do business in more than one state are engaged in interstate commerce, and, hence, are subject to regulation by Congress under the commerce clause. Also in the *Polish National Alliance v. the National Labor Relations Board* case the Supreme Court held that the insurance business was broad enough in nature to be regulated by Congress under the commerce clause.

Insurance solicitor. *See* Agent; Solicitor.

Insured—assured. The words *insured* and *assured* are used interchangeably by courts, writers, and insurance companies. However, an attempt has been made to discriminate between the two words in this way; the "insured" is the person whose life is covered, or his legal representatives; the "assured" is anyone else to whom the proceeds are payable.

In a well-known case (*Connecticut Mut. Life Ins. Co. v. Tuchs,* 108 U. S. 498, 2 Sup. Ct. 949, 27 L. Ed. 800) it was said that the terms *assured* and *insured* are applicable either to the party for whose benefit the insurance is effected or the party whose life is subject to the policy, the construction of the terms depending upon their connection and context in the policy; the general rule seems to be that the term *assured* in a life policy obtained by one for the benefit of another, must be construed as designating the person for whose benefit the policy is obtained, and not the person whose life is insured.

Insured's estate. The proceeds of a life insurance policy may be made payable to an insured's estate. It must be kept in mind, however, that proceeds payable to the estate must be probated, with the taxes that are usually imposed by inheritance laws, administration costs, and generally delay in payments. Such proceeds are also subject to claims of the insured's creditors. Payment to a named beneficiary avoids most of these problems.

Intemperance. Applications for life insurance policies usually require the insured to state his habits regarding intoxicating liquors or narcotics. Such statements are regarded also as statements about the future habits of the insured which might tend to impair his health and shorten his life. The following is an example of such provisions in the declarations made to the medical examiner:

> (1) If you use wine, spirits, malt liquors, or other alcoholic beverages, state kind used and how much in any one day at the most; (2) how frequently do you use the amount stated? (3) if you use any of them daily, weekly, or monthly, state kind and average for the past two years; (4) have you used any of them to the extent of intoxication during the past ten years? (5) have you ever taken treatment for alcoholic or drug habit? (6) if total abstainer, how long have you been so? (7) in what form and to what extent do you use tobacco? (8) do you now

use or have you ever used opium, chloral, cocaine, or any other narcotic drug?

Whether such provisions are considered promissory warranties (which they often are) or as conditions subsequent, they are often grounds for forfeitures if the policyholders do not live up to these promises.

By *intemperance* is usually meant excessive use of intoxicants. In some applications for policies, the statement is qualified by the words *impairment of health* or *habitual intemperance.* Excessive use of intoxicants for a few days might impair health to the extent of being the substantial cause of death.

Life insurance policies do not intend to cover death directly caused by intemperance or the voluntary and excessive use of intoxicants or narcotics. Many of the early policies contained an intemperance clause by means of which no payment was made for death resulting from use of alcohol, opiates, and narcotics. The inclusion of the incontestable clause in the policy eliminates the application of intemperance after a period of time. Usually, unless otherwise stated in the policy in order to come within this exception, the intemperance must be the controlling or proximate cause of the death. In case the death was contributed to by several causes, this question may involve considerable difficulty. For example, the insurer was not liable for the death in a case where a person with delirium tremens escaped in few clothes and by reason of the exposure a congestion in the lungs caused death (*Miller v. Mutual Ben. Life Ins. Co.*, 31 Iowa 216, 7 Am. Rep. 122). Generally, the burden is on the company to prove death caused by intemperance or the use of narcotics. It has been held that the insurer must prove the drug causing death is a narcotic. *See* Incontestable clause.

Intercepted annuity. A life annuity that is not payable for the entire remaining lifetime of a person is sometimes designated an *intercepted annuity.* Such an intercepted annuity may be payable only over the last part of the complement of life at a certain age (deferred life annuity), over the middle period of the remaining lifetime (deferred temporary annuity), or over the first period (temporary annuity). *See* Life annuities.

Interest assumption. This term refers to the basic rate of interest a company assumes in the calculation of premiums and guaranteed policy values. If the interest actually earned exceeds that which is assumed, then an "excess interest" is earned.

Interest earnings. Earnings from interest are important in life insurance income, premium calculations, and reserves. The interest rate is of great importance in the valuation of policy liabilities. In some respects variation in interest earnings is of more importance than fluctuations in mortality. From 1930 to 1945 interest earnings declined from five to three per cent.

Interest only agreement. Under the *interest only agreement* the proceeds are kept intact and a fixed interest thereon paid throughout the life of the beneficiary. The monthly interest corresponding to three and one-half per cent per annum is $2.871 per $1,000 of proceeds.

Under this type of agreement the first income payment is made one year or one month, as the case may be, after the death of the insured, instead of being payable immediately upon proof of death as in other types of agreement.

A provision for withdrawal of not exceeding ten per cent of the prin-

cipal sum each year may be inserted at the rate of interest stated in the policy. If any withdrawals in excess of ten per cent of the principal sum in any one year are to be provided, the rate of interest will be at three per cent only. The monthly interest corresponding to three per cent per annum is $2.466 per $1,000 of proceeds. Regardless of the rate of interest or amount of withdrawals, not more than two such withdrawals will be allowed in any one year.

In applying for such an agreement it is necessary to specify "interest only agreement," how often interest is to be payable, and name the contingent beneficiary, if any.

Interest tables. *See* Compound interest.

Interim term. An interim policy is a simple short-term policy (for less than eleven months) and its object is simply to fix the anniversary date of premium payment on a life policy at some other than the present time. The interim policy furnishes the individual with insurance between the present time and the future period at which the policyholder wishes to begin payment of premium on a regular policy.

When it is desired to have the premium fall due permanently at a different time of year from that at which the application is made out, the interim term covers the period the premium is to be deferred. The following is an example of interim term rates:

INTERIM TERM INSURANCE
SINGLE PREMIUMS
ORDINARY—BASIS OF $1,000

Age	Single Premium for One Month's Insurance	Age	Single Premium for One Month's Insurance	Age	Single Premium for One Month's Insurance
—15—	$0 78	—35—	$0.91	—55—	$1.88
16	78	36	92	56	2.01
17	78	37	94	57	2 16
18	79	38	95	58	2.32
19	79	39	.97	59	2 50
—20—	79	—40—	99	—60—	2.70
21	80	41	1 02	61	2.92
22	80	42	1.04	62	3.17
23	.81	43	1 07	63	3.44
24	.81	44	1 10	64	3.73
—25—	.82	—45—	1 13	—65—	4.06
26	.82	46	1 17		
27	.83	47	1.22		
28	.84	48	1 27		
29	.85	49	1.33		
—30—	.85	—50—	1.40		
31	.86	51	1.47		
32	.87	52	1 56		
33	.89	53	1 65		
34	.90	54	1.76		

To obtain Single Premium per $1,000, on term other than one month, multiply Single Premium for one month's insurance by number of months in the term.

Intermediate policy. In life insurance, quite a sharp distinction is drawn between the industrial policy and the ordinary policy. A life insurance contract that partakes of the nature of both an *industrial* and an *ordinary* policy is often called an *intermediate policy*. The main point of distinction is in the size of the face value of the policy. The basic ordinary life policy is for $1,000. The typical industrial policy averages $250. A policy for, say, $500 would be an intermediate policy.

Intoxicants. *See* Intemperance.

Investment exhibit. This is a part of the annual statement which shows gains or losses from sales or changes in asset values affecting the company surplus. This exhibit also shows changes in any special investment reserves that a company may hold.

Investment expense. Investment expenses include taxes, repairs, and other expenses on account of real estate and expenses of investment departments. A statement of investment expenses is shown in the Gain and Loss Exhibit of the annual statement.

Investment income. The two chief sources of income for life insurance companies are premiums and returns from investments. Many companies show a percentage analysis of dollar income from premiums and investments. Generally speaking investment income produces 16 cents on the dollar and premium income 84 cents on the dollar.

Investment insurance trust. In life insurance, the funding of a trust on the installment plan is sometimes referred to as an *investment trust.* This plan not only provides for the conservation of the insurance proceeds following the death of the policyholder but also makes an arrangement for the payment of premiums during his lifetime as well as the ultimate funding of trusts. Under this plan, the policyholder agrees to make deposits with the trust company which are in excess of the sum required to pay the premiums on an installment basis. The excess deposits, those not necessary to pay insurance premiums, are invested. Ultimately, these deposits become large enough to pay the insurance premiums. Upon the death of the policyholder, the funds in the investment trust and the insurance proceeds are administered as a trust fund according to the terms of the trust agreement. *See* Funded insurance trust; Optional modes of settlement.

Investment policy. *See* Endowment insurance.

Investments. Nearly all the states have enacted some form of investment statute, although there is virtually no uniformity in these laws. The general idea underlying the enactment of investment provisions relating to insurance companies is to secure a certain measure of soundness and stability for the purpose of obtaining a reasonable return upon the investments and to prevent insurance funds from being wasted in speculative and unsound investments. Distinctions are made in some states between the investment of capital only and other funds. The classes of investments generally approved by the insurance departments may be summarized as follows: (1) bonds, notes, and other evidences of indebtedness (a) of the United States, (b) of a state of the United States or any political subdivision thereof, (c) of the Dominion of Canada, its provinces, or political subdivisions thereof; (2) first mortgage on unincumbered real estate located in the United States or Canada; (3) collateral loans upon the classes of securities just mentioned; (4) certain corporate bonds and corporate stocks.

In making investments, the investment committee of an insurance company must take into consideration the following principles of sound investment practice: (1) safety of the principal; (2) highest yield consistent with safety; (3) proper diversification; and (4) ready convertibility.

Real estate is not readily convertible, is subject to depreciation, and is limited by law to such as is essential for the convenient transaction of the company's business. Mortgage loans, although not readily convertible,

meet all the other requirements, and form a considerable part of insurance company investments. Because of the speculative nature of stocks, most states place restrictions upon the investment of insurance company funds in stocks. Bonds, both government and private, represent a type of investment which forms a vital part in the insurance company investment program. Bonds satisfy nearly all the sound investment principles. For short periods, collateral loans secured by stocks or bonds are good investments. The composition of the assets of insurance companies varies with the individual company.

The following gives the name of the leading type of investment and the percentage distribution for the most important life insurance companies as a group:

Investment Class	*Per Cent*
1. U. S. Government bonds . . .	30.9
2. Utility bonds	18.8
3. Mortgage loans	18.6
4. Railroad bonds	8.2
5. State, county, and local bonds	6.6
6. All other assets	16.9

Irregular living. One of the factors entering into the impairment of a risk for life insurance is irregularity of living or overindulgence in bad habits. This is an impairment of the risk and must be given careful attention in selecting the business and properly underwriting it. This is a moral hazard which affects adversely the longevity of the applicant. *See* Substandard insurance.

Irrevocable beneficiary. Under most policies the beneficiary may be made changeable at will or irrevocable as the insured pleases. If the beneficiary is not revocable, then consent of the irrevocable beneficiary is necessary to make a change in the policy. The interest of a beneficiary in a policy of life insurance is vested at the time the policy takes effect if the right to change the beneficiary is not reserved by the policyholder. Where the beneficiary is irrevocable, the insured cannot assign the policy, obtain policy loans, or receive the cash value without the consent of the beneficiary. *See* Beneficiary.

Issue of insurance. A distinction is made in reporting life insurance on the basis of policies written, issued, paid for, and in force. Some policies may be written and "issued" or delivered to the insured as written. Some policies may be "written" but "issued" with changes. A policy that is "issued" is one that has actually been sold and paid for.

J

Joint and survivor annuity. In a joint annuity, naturally, two or more persons are concerned in the proceeds under the contract. Where it is a joint and survivor annuity, the payment continues as long as any one of two or more designated individuals continues to live. It differs from the joint annuity, under which the payment ceases at the first not the last death. *See* Immediate annuities; Deferred annuities; Joint life annuity.

Joint life annuity. A life annuity payable to two or more persons while all are alive to receive the payments and ceasing upon the first death is known as *joint life annuity* This annuity should not be confused with the joint and survivor annuity, where the duration of two or more lives is included and payment continues to the last survivor *See* Immediate annuities; Deferred annuities.

Joint life insurance. Joint life insurance is a contract that is payable upon the first death among the lives insured, usually insuring two people for the benefit of the survivor. Upon the death of any one of the insureds, the proceeds of the policy are paid

to the survivor or survivors and all further benefits under the policy terminate. The policy does not continue to insure the life or lives of survivors. This kind of a policy, however, may be written on any plan (whole life, limited payment, endowment) and may cover any number of persons and may be made payable to a beneficiary in whom all the insured are mutually interested. Such policies may be written on lives of business partners, or on the lives of husband and wife.

Although many companies issue joint life policies, they hold that it is desirable in most cases to issue separate policies where more than one life is concerned, such as husband and wife. It has been a general assumption that in partnership insurance the protection should be on the joint life plan. Some companies, however, do not take this view even of life insurance for partners.

Premium rates for joint life policies for standard lives are calculated at the equal age, taken to the nearest half-year of age, corresponding to the ages at nearest birthday of the two proposed insured at the date as of which the policy is to take effect. Cash values are likewise based on such equal age.

Premiums and cash values are accordingly shown on an equal age basis. The equal age corresponding to two unequal ages at issue will be determined from the table below.

Nonforfeiture provisions in joint life policies also provide for nonparticipating extended term insurance and participating paid-up insurance.

ADDITION TO BE MADE TO THE YOUNGER OF TWO LIVES IN ORDER TO OBTAIN THE EQUIVALENT EQUAL AGE

Difference of Ages Years	Addition to younger Age Years	Difference of Ages Years	Addition to younger Age Years	Difference of Ages Years	Addition to younger Age Years	Difference of Ages Years	Addition to younger Age Years
1	½	12	8	23	17	34	27½
2	1	13	8½	24	18	35	28½
3	1½	14	9½	25	19	36	29½
4	2	15	10	26	20	37	30½
5	3	16	11	27	21	38	31½
6	3½	17	12	28	22	39	32½
7	4	18	13	29	23	40	33½
8	5	19	13½	30	24	41	34½
9	5½	20	14½	31	25	42	35½
10	6½	21	15½	32	25½	43	36½
11	7	22	16½	33	26½	44	37½
						45	38½

Example: Having two lives, one aged 25 and the other aged 35, the difference in ages being 10 years, we find from the preceding table that the addition to the younger age is 6½ years, giving equal age 31½. The required premiums and cash values will be found under equal age 31½, for the given plan of insurance. Similarly the same premiums and cash values would be applicable to the combination of ages at issue 22 and 36, or to the combination of ages 31 and 32, or to any other combination of two ages for which the above table would give equal age 31½.

Juvenile insurance. Juvenile insurance is insurance of any form written on the life of infants or minors. Industrial life insurance written on the lives of children may be called juvenile insurance; likewise, child endowment policies may be referred to as juvenile insurance. It should be pointed out that juvenile insurance policies are on the lives of children

and not on the lives of grownups for children. Generally, of course, the child's parent or guardian has control of the policy until the child becomes 21 years of age. One way to finance an educational program is to obtain a juvenile endowment policy issued to mature when the child is ready for college. In some juvenile policies, all premium payments may be waived if the parent or guardian becomes totally disabled or dies.

Many of the states have enacted legislation relative to the insurance of children. Many of the fraternal organizations have been interested in juvenile insurance. The following law exists in Oregon:

> Any fraternal benefit society authorized to do business in this state may provide in its laws, in addition to other benefits provided for therein, or the payment of death and/or annuity benefits upon the lives of children between the ages of one and eighteen years at next birthday, upon the application of some adult person, as the law of such society may provide, upon whom such child is dependent for support and maintenance. Any such society may, at its option, organize and operate branches for such children and membership in local lodges and initiation therein shall not be required of such children, nor shall they have any voice in the management of the society. The death benefits payable as above provided shall in no case exceed the following amounts at ages at next birthday at time of death, respectively as follows: One, $25; two, $50; three, $75; four, $100; five, $130; six, $175; seven, $200; eight, $250; nine, $325; ten, $400; eleven, $500; twelve, $600; thirteen, $700; fourteen, $800; fifteen, $900; and sixteen to eighteen years, where not otherwise authorized by law, $1,000.

For ages at issue under five in many companies the amounts of insurance in force in each policy year are graded in accordance with the following table, the figures being based on an ultimate amount of $1,000 insurance:

	Policy Year					
Age at Issue	1	2	3	4	5	6
0	100	200	400	600	800	1000
1	200	400	600	800	1000	
2	400	600	800	1000		
3	600	800	1000			
4	800	1000				
5	1000					

For ages at issue five and above, the ultimate amount of insurance is effective throughout the life of the policy.

The individual applying for a juvenile policy on the life of the child is called the *purchaser*. The purchaser is usually the parent or some other close relative of the insured. The purchaser is ordinarily the one who will pay the premiums on the policy, at least until the child is of age. Under the terms of these policies ownership vests in the purchaser until the insured attains the age of 21, when the insured will obtain ownership.

If the purchaser dies prior to the time the insured reaches the age of 21, ownership will immediately vest in the insured unless the purchaser has designated some other individual to have ownership until the insured reaches age 21. It is recommended by many companies that the purchaser always designate some individual to assume ownership until the insured is 21 in the event of his death.

K

Key man insurance. Most business concerns have one or more individuals who are usually capable in a somewhat highly technical or specialized field. Such a person may be an engineer, or inventor, a financial leader, or an inspirational sales manager. It would be difficult to replace him. He is worth much to a business. When life insurance is writ-

ten on such a man to offset the loss of his services it is called *key man* insurance.

Kinds of insurance. *See* Industrial life insurance; Ordinary life; Group life insurance; Fraternal insurance; Savings bank insurance.

L

Lapse register. In industrial life insurance some companies use a form on which a detailed list is made of the policies that have entered or ceased to be in force in the debit book of the agent. It is the purpose of this life-and-lapse register to give the agent a record of new risks entered and terminations by lapse so as to bring his debit account up to date.

Lapses. The termination of insurance by lapse occurs because of the nonpayment of premiums before the policy has been in force long enough for it to have a cash surrender value. Inasmuch as a cash surrender value is not generally available in ordinary life insurance until after policies have been in force for three years, almost all ordinary lapses take place before the insurance has been in force three years.

The problem of lapsation is recognized by the companies, and serious efforts are being made to deal with the situation. Lapsation was one of the problems that came up in the Temporary National Economic Committee investigation of insurance. Particular criticism has been made in regard to the lapse rate in industrial life insurance. One of the best studies of lapses was made by the New York Insurance Department. The following excerpts from this report seem to summarize an official viewpoint on the subject of lapses:

> Another major criticism of Industrial insurance relates to the large number of lapses. The belief has been expressed that lapses are very heavy, especially in the early policy years, and that policyholders suffer a large loss thereby.
>
> Lapses are undoubtedly heavy, and represent the major waste of the business. However, before entering into a discussion of the volume of lapses, it is necessary to consider two important related matters. One is that a large proportion of the lapses occurs shortly after issue of the policy, as will appear below. In fact, of the policies which lapse before premiums have been paid for 3 years, 20% lapse after paying a premium for only one week. Since a grace period of four weeks is allowed in all cases, the policies which lapse after paying only one week's premium have had adequate value for their money in the form of term insurance. The same applies to a lesser extent in the case of other policies which lapse after short periods of premium payment. . . . Revival rules (for reinstatement) are more liberal than those in the Ordinary department and result in many policies being revived shortly after they lapse. The experience has been that about 85% of the revivals come in within three months after lapse.
>
> Nevertheless, net lapses after revivals remain heavy, and the following study was undertaken for the purpose of determining the extent of lapses and their cost to policyholders. [pp. 37–38]
>
> If it is representative of the business of the company in normal years, it may be said that about one-third of the policies issued partially fulfill their function, and about one-third completely fulfill their function. [p. 53]
>
> It may therefore be said that terminations have been heavy, especially in the depression years, and that these terminations have been costly and represent an economic waste. The company realizes the importance of this matter and is constantly striving to reduce its effect. [p. 54]
>
> The lapse figures shown above are heavy, both as to number and percentage of policies written and it was felt to be desirable to obtain a measure of the cost of these lapses to policyholders. For this purpose average premiums per policy

were developed from the records of the company, and average costs of term insurance from its mortality statistics. Extensive calculations were made with the above figures as a basis, to determine for each of the groups the total amount of premiums paid, the cost of the term insurance had by the policyholder, and the net loss to the policyholder on account of the lapse. The mortality rates used to calculate costs of term insurance were developed from the company's detailed statistics of Industrial mortality in recent years. Deducting the cost of the term insurance had by the policyholder prior to lapse from the total premiums paid left the net loss to the policyholder on account of lapse. [p. 43]

In the case of the weekly premium policies tabulated above as having premiums paid for less than ¼ year, the average loss per policy would be about 82 cents, and in the case of those lapses with premiums paid for less than ½ year the average loss would be about $1.44.

In the case of both weekly and monthly policies the cost of lapse is a larger proportion of the premiums paid under endowment policies than under life policies, but since a larger number of cases is included under the latter, the figure for all plans is closer to life than to endowment plans. The substandard plans are small compared to the others and have but little influence on the final results.

From these figures it may be said at once that about 85% of the premiums paid on policies which lapse within three years represent a loss to the policyholder. This loss runs into millions of dollars annually. It represents the waste of the business and is due to the lost motion in writing the policies, placing them on the books, collecting premiums for a little while, and then terminating the policies. These figures do not include the cost of disability and accidental death insurance, nor the full effect of the cost of term insurance during the grace period, nor the cost of health and welfare services, but such costs would be small compared to the total and would not appreciably affect the above ratios.

It would seem that the criticism directed against the large volume of terminations shortly after issue is justified. Such terminations have been a major waste of the business for many years and have challenged the best efforts of the company in the attempt to reduce them.

It is sometimes thought that because no non-forfeiture value is paid upon lapse prior to the end of the third policy year (in the case of the policies above considered) the company gains through the release of the reserve in such cases and is therefore not averse to lapses. But, as indicated by the figures in the next section, it is questionable whether the aggregate lapses result in a net gain to the company and this furnishes another reason why the company is anxious to conserve the business. [p. 44–45]

It therefore appears that while the policyholder loses as a result of early lapsation, it is questionable whether the aggregate of such lapses results in a net gain to the company. [p. 49]

In the matter of terminations it is shown that, in spite of all efforts to reduce them, lapses remain quite high and represent a large loss to policyholders. In the year 1935 sixteen per cent of the weekly premium policies written were lapsed with only one to four weeks premiums paid and forty-three per cent were lapsed before they were three years old. *The resulting losses to policyholders were heavy, representing about eighty-six per cent of the premiums paid on such lapsed policies and running into millions of dollars annually.* However, it is erroneous to assume that such losses represent a gain to the company for it is shown that in the aggregate the costs of acquisition are not liquidated until about three policy years have elapsed. The only conclusion therefore is that the costs incident to lapsation represent a loss to both the lapsing and persisting policyholders and *are a major waste of the business.* The company has been making every effort to reduce the number of lapses but the problem is far from being solved and the matter of lapses is perhaps the major item of criticism of the business. The fact that lapse rates under

Ordinary policies are not very much better is not sufficient justification for the high industrial lapse rates shown herein. [pp. 114–115]

Large policy. What constitutes a *large policy* in life insurance depends a great deal on the particular insurance company, its size, surplus funds, and so forth. A moderate size policy in one company would be a large policy in another company, so the term is relative in nature. In view of the fact that the average amount of insurance per person in the United States is about $2,000, a $50,000 policy would be considered a large policy by most people. Most companies reinsure risks in excess of their limit of retention, and from this standpoint it is possible to define a large policy. *See* Reinsurance.

Last survivor. A policy of insurance in which two or more lives are involved, but the payment of the proceeds is not made until the last member of the group dies, instead of the first, is said to be insurance on the last survivor. It is to be distinguished from the joint life policy, which makes payment on the first death of two or more persons.

Last survivor annuity. A *last survivor annuity* refers to an agreement made to pay an annuity to two or more persons as long as they live. Upon the occurrence of death, the full amount will be paid to the survivor or survivors until all are dead. *See* Joint and survivor annuity.

Law of agency. *See* Agent; Agent's power to waive policy provisions.

Law of average. The principles of the law of average, sometimes called "law of great numbers," are of importance in life insurance, and in any other form of insurance as it is practiced today. The workings of the law of average are almost everywhere apparent, as for example, the number of people who use the subways in New York City. Although it is not possible to tell exactly what individual will ride on the subways, still the railroad companies can safely count on a certain volume of traffic each day and for each particular hour of the day. It is a well-known fact that, in tossing a coin, if a sufficient number of tosses are made and a record kept of several thousand tosses, the number of times that heads and tails will fall will be approximately equal. In the ordinary deck of playing cards, the chances of drawing the deuce from the pack, under the law of average, are about the ratio of 4 to 52 or 1 to 13. If a sufficient number of draws were made, the proportionate number of times a deuce would be turned up would approximate the ratio of 4 to 52.

In life insurance, it is impossible to say when a particular person will die, yet out of a group as large as one hundred thousand about the same percentage of each group will die in a year's time. Therefore, although a transaction involving the death of a single individual is necessarily always a gamble, a transaction involving many lives will give entirely stable and dependable results. The essential difference, therefore, between one life and one hundred thousand lives is simply a matter of numbers. This law of large numbers is quite important in the question of insurance, for one of the most fundamental concepts in the business deals with the total of insurance. An example of the requirement of the law of averages is found in the New York Insurance Code which requires applications from 500 persons before a mutual life insurance company can be started.

It should be observed that the *law of average* refers to the application of certain fundamental principles that are essential in insurance. If

the working of the law of average in insurance is to decrease the uncertainty of events or to diminish the risk or probability of an event's happening, then insurance is not gambling, because the law of average does not create a risk but tends to reduce the chance of uncertainty about losses. Furthermore, the law of average in insurance makes the business essentially a co-operative institution, no matter what the particular form of the carrier (stock, mutual, reciprocal) may be. The application of the law of average into insurance means that thousands of policyholders pay premiums into a common fund to take care of the losses of the unfortunate few. Moreover, the law of average if properly applied in insurance means that huge sums of money must be accumulated in advance to take care of future claims; that, in short, losses are bad, big catastrophes undermining the law of average; that *unlevel* sizes of particular risks defeat the purpose and function of the law of average; and that an *adverse selection* of risks is contrary to the law of average. The law of average implies that risks will be selected at random. Good underwriting means that substandard risks will be eliminated or charged a higher premium or adjusted in some manner. *See* Doctrine of chance.

Law of mortality. *See* Mortality tables.

Ledger assets. A statement of ledger assets is required in the financial statement by the state insurance departments. Generally the ledger assets are those which are shown on the account books of the company. Some ledger assets are "not admitted" by state insurance departments; so not all ledger assets are "admitted assets." *See* Assets and liabilities; Financial statement.

Legal regulation. *See* Supervision and regulation.

Legal reserve. *Legal reserve* refers to the assets that an insurance company must maintain to meet its liabilities. It is the funds held in trust by the company or the reserve required by the statutes of the various states to be retained which, with future premiums, if any, based on carefully calculated rates of interest and mortality, will be sufficient to pay the estimated future claims against the company. The states set certain standards for interest and mortality that are considered a basis, and a company is considered solvent on such a basis if its future premiums, in addition to its reserve, will permit it to settle all claims. In most states, the minimum standard set by law has been three and one-half per cent interest, mortality to be figured according to the American Experience Table. The new Standard Valuation Law provides for a three and one-half per cent interest rate and the use of the 1941 Commissioners' Table of Mortality. In many cases, the companies use a three per cent basis for figuring interest earnings, which means that they are maintaining more than the minimum legal reserve and also that a very extraordinary fluctuation in interest earnings would have to occur to render such a company insolvent. It has been asserted that the legal reserve in life insurance must be kept at a value related to the net value of the policies in force. In one case, it was ruled that this legal reserve could not be used for the construction of an office building. *See* Valuation standards.

Legal reserve insurance. In this form of life insurance, sometimes called *old line insurance* and distinguished from assessment insurance, the premium is fixed in amount during the policy period. The premiums (level premiums) are in such amounts as to accumulate a sinking fund (reserve)

so that with all future premiums paid the company will be able to meet all obligations. The fund (reserve) which is accumulated is the result of overpayments made during the earliest years of the policy period in order to meet the higher cost of providing insurance in the later years of the policyholder under the level premium or legal reserve plan. The reserve is established by law. *See* Assessment life insurance.

Legal restrictions. *See* Supervision and regulation.

Level premium. Under this plan in life insurance, the amount of the consideration is the same—level—for all the years of the assured's life during which premiums are to be paid. The net level premium or net annual premium is often contrasted with the net single premium and the net natural premium. Whereas the net single premium is a lump sum paid for a number of years, and the net natural premium increases with the age of the policyholder, the net level premium is paid over a period of time and remains the same for the attained age of the assured.

To determine the net level premium, the actuary simply computes the present worth of all the future natural premiums, for any given age, and divides the sum of these natural premiums by the number of lives in the groups. Or, to put it another way, he finds the equal annual equivalent of the net single premium for a period of years.

In life insurance, most companies calculate the premium on a level basis. The amount charged in youth is more than is required, and this excess is reserved at compound interest for years when the payment is insufficient to maintain the insurance. The level premium has the advantage over either the natural premium or the single premium plan because the premium is moderate and within the reach of most people and never changes. The other two plans become either impractical or impossible for most people.

A level premium may be defined as the individual share of an amount collected annually from the survivors of a large group of persons at a given age, which, together with interest at an assumed rate, will provide exactly for the premiums of the total death claims occurring in each year, in accordance with the mortality table, up to the end of the term of the years for which the insurance is undertaken.

The level premium is nothing more than the single premium divided up so that the payments will extend over the term of years which the insurance is to cover. This is simply an installment method of paying the single premium, because the average individual is not able to pay in a lump sum the amount which is usually called for in the single premium. In order to arrive at the level premium, the steps in the process are somewhat as follows: First, take as an example the first-year term rate, which can be established. Following that, compute the present value of one dollar paid at the beginning of each year by each survivor in the group. The next step is merely a matter of solving a simple mathematical proportion, for the single premium may be found by the following proportion: one dollar paid at the beginning of each year is to single premium, five-year term rate, as one dollar (the level premium used at the present value) is to the level premium, five-year term rate.

To compute the net level premium, let us take a simple illustration. Let us calculate the next level premium for $1,000 of insurance for an individual 35 years of age on a

five-year term policy, according to the American Experience Table of Mortality with interest at 3½ per cent. By referring to the Mortality Table, you will find 81,822 persons living at age 35; the net single premium for the individuals for such a group would be $41. The following table shows how the above sum is derived by taking the facts from the mortality table and the rate of interest earned:

$732,000	(death claims) × 0 966 (P.V. of $1 for 1 yr.)	$ 708,452
737,000	(death claims) × 0.934 (P.V. of $1 for 2 yrs)	688,058
742,000	(death claims) × 0.902 (P.V. of $1 for 3 yrs)	669,284
749,000	(death claims) × 0.871 (P.V. of $1 for 4 yrs.)	652,379
756,000	(death claims) × 0 842 (P.V. of $1 for 5 yrs)	636,352
	Total present value (p.v) of death claims	$3,354,725

$3,354,725 divided by 81,822 equals net single premium of $41.00

To ascertain the net level premium for the 81,822 persons, it is necessary to find equal annual premiums that are equivalent to $41. If each of the 81,822 persons alive at age 35 were to pay an annual level premium of $1 at the beginning of each year for five years, the yearly premiums collected by the company would be as follows:

At age 35	(81,822 × $1) no interest earned	$81,822.00
At age 36	(81,090 × $1) discounted for 1 yr.	78,332 94
At age 37	(80,353 × $1) discounted for 2 yrs.	75,049.70
At age 38	(79,611 × $1) discounted for 3 yrs.	71,809.12
At age 39	(78,862 × $1) discounted for 4 yrs.	68,687 80

The net single premium (P.V. of five total premiums) for the group equals $375,701.46.

The net single premium for each member of the group equals $375,-701.46 divided by 81,822 or $4.59.

Obviously $4.59 paid in advance is equivalent to one dollar each year for five years. Either sum of money paid by the method stipulated will purchase the same amount of insurance. Now, if $4.59 is the equivalent of a net level premium of $1 for five years, then the net single premium of $41 may be stated in the following proportion: $4.59 : $1.00 : : $41 : ×, or $41 divided by $4.59 = $8.93, which is the net level annual premium for a five-year term policy for $1,000 at age 35, with the rate of interest at 3½ per cent. *See* Net natural premium; Net · single premium.

Liabilities. *See* Asset and liabilities.

Liability valuation. The largest portion of the liabilities of a life insurance company, often as high as 90 per cent of total liabilities, is the reserve on policies. State insurance laws stipulate the methods for the valuation of these reserves or liabilities. *See* Valuation standards.

License. Most states require that an agent or brokei must obtain a license to propose, solicit, and place insurance. Such a license must be issued before commissions can be paid. Moreover, the issuance of the license does not permit the payment of commissions on any business that may have been placed prior to the issuance of the license. Generally, too, a company authorized to transact business cannot accept business from an unlicensed person. Many states require the passing of an examination before an agent can qualify for a license. *See* Agents' qualification laws.

Lien system. In life insurance practices, one of the methods of treating substandard risks is to place a lien against the policy and deduct this amount upon the maturity of the policy. Generally, the amount of the lien decreases as the extra mortality decreases during the term of the policy. This scheme usually appeals to the substandard risk who feels that his status will improve, such as in the case of an impairment arising from a

family history of tuberculosis. An objection to the system is that the policyholder may be unaware of the lien and hence be mistaken about the actual amount of insurance he is carrying. Under the lien system the amount of the lien, relatively large to take care of the extra risk in most instances, is deducted from the face amount of the policy if the insured dies before the end of the lien period. *See* Substandard insurance.

Life and lapse register. *See* Lapse register.

Life annuities. Probably the best known, as well as the most simple, form of an annuity is the life annuity, which is sometimes variously called the *ordinary life annuity, straight life annuity, regular life annuity, single life annuity,* and maximum *income life annuity.* Briefly, it is an annuity for the duration of one life purchased by a single premium payable in a lump sum at the time the contract is issued. There are a number of life insurance companies selling this life annuity to both men and women. Although underwritten by life insurance companies this annuity is not life insurance, strictly speaking, but it may be called an "insured income for the lifetime of the annuitant." It provides for the immediate liquidation to the insurance company of the single premium upon the death of the annuitant.

Under the usual life annuity contract the insurer in consideration of the statements in the application and the payment in advance of the single premium of a specified amount agrees to pay to the annuitant a fixed income in definite amounts at exact intervals during his (or her) remaining lifetime regardless of duration.

At the time the contract is written, the annuitant usually has the opportunity to select yearly, half-yearly, quarterly, or monthly payments, although the price is slightly higher for the more frequent income payments. After the contract is issued, however, the annuitant cannot change the frequency of the payments. These payments, which are to begin a year, a half-year, a quarter-year, or a month after the contract is issued (depending upon the payment frequency selected), are to continue during the remaining lifetime of the annuitant.

The income payments are commonly made by check to the order of the annuitant and are usually forwarded to reach their destination on or before the due date. Under usual conditions the personal endorsement of the company's check by the annuitant is generally considered sufficient evidence that the annuitant is living.

Customarily, as provided by the regular premium rates, the final payment by the insurer under a life annuity contract is the periodic payment due immediately preceding the death of the annuitant. Under the monthly payment plan, only a matter of a few days would be involved in this period for which no payment is applicable. Some companies will quote special rates providing proportionate payment to date of annuitant's death. The usual life annuity contract, however, terminates with the death of the annuitant.

It is important to realize that under the life annuity agreement the annuitant may live to receive much more from the insurance company than the amount of the lump sum purchase price of the annuity. On the other hand, the annuitant may live to receive only a few payments. The important feature is that the annuitant cannot outlive the annuity. The fact that the annuitant will receive a guaranteed income as long as he lives is one of the great pulling powers of the annuity from the viewpoint of the purchaser.

The ordinary life annuity contract does not guarantee a definite number of annuity payments to the annuitant or his heirs. Under the regular life annuity no beneficiary is named in the annuity application or contract, for no refund of the purchase price or death benefit, as it is sometimes called, is provided under this type of annuity. Special refund life annuities, however, may be secured. Furthermore, no cash values are available under the usual life annuity contract. The presence of a cash value when there is no refund provision under the annuity might tend to be an incentive for the annuitant to take any cash value before his death and threaten the company's ability to continue payments to the annuitants who live. Another reason for not providing a cash value under this contract is to prevent the annuitant from taking the cash value of his annuity and speculating on a rising stock market. Although this lack of cash values or refund provisions is sometimes not popular with prospects, these features enable the insurer to provide a greater measure of income return during the annuitant's lifetime than would otherwise be possible. The absence of these above-mentioned features also helps to explain, in part, why the income return received under such a life annuity, especially at the more advanced ages, is unusually large in comparison with the return obtainable from investing in a security whose yield depends only upon earnings.

The balance of the principal paid in by those who die early goes into the company's funds and helps to guarantee the continuance of payments to those who live. If a certain annuitant, therefore, dies after only a few income payments have been paid to him, the insurance company gains on the particular contract; but if the annuitant in question lives to receive a great number of payments, the company may lose money on the particular transaction. With a very large number of annuitants, however, the law of average enables the life insurance company to issue such contracts with safety. These losses by the company on some annuitants are offset through gains from other annuitants, so that the consequences of the law of large numbers are to produce an equilibrium or balance of gains and losses.

Not infrequently the net cost of the life annuity is popularly considered as the result of a mathematical computation, dependent upon the mortality table which indicates the "life expectancy" of annuitants and upon the interest earning of the life insurance company. Such a calculation, it should be noted, is only a rough approximation to the true present value of the life annuity. Invariably this unscientific method overstates the annuity value. The correct method of computing annuity premiums has been clearly described as follows (by Albert M. Linton, *The Annals,* Vol. LXX, No. 159, p. 21)*:

> The mortality table, upon which the computation is based, consists fundamentally of a series of numbers, showing how many persons out of a given number alive at the youngest age in the table, survive to each age throughout the possible range of life. Given, therefore, a large group of persons all of the same age, the mortality table renders it possible to forecast how many of the group will be alive one year hence, two years hence, three years hence, and so on until all of the members of the group have passed away. If, however, a promise should be made to pay a yearly annuity of a dollar to each member of the original group, it could be foretold how much would have

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to be paid at the end of the first year to those surviving at that time, how much would have to be paid at the end of the second year and at the end of the third year, and so on throughout the number of years covering the possible span of life of any of the members of the group. This series of payments may be compared to a serial bond issue maturing in definite amounts throughout a period of years. And just as the banking house computes the present value of the principal payments under the serial bond issue, so the actuary computes the present value of the series of annuity payments that will be made to the members of the annuity group. Dividing the present value of the complete series of future annuity payments, by the original number of members of the group, he arrives at the true present value of the life annuity on the basis of the mortality table employed and of the rate of interest assumed in determining the present value of the future payments.

In actual practice, mathematical short cuts are used to facilitate the actuarial calculation. A statement is frequently made in the annuity contract of the annuity mortality table and interest rate which form the basis for the reserve.

The important factors involved in the cost of the nonparticipating life annuity include the age of the annuitant at the last birthday, the sex of the annuitant, and the frequency of the income payments. The exact date of birth of the annuitant, supported by evidence, is required upon securing a life annuity, since the age of the annuitant is such an important element in the risk assumed by the insurer. For ordinary life annuity contract, the age is taken at the last birthday instead of at the nearest birthday as in life insurance and in some annuity transactions.

A man of 70 can purchase a greater income with a particular sum of money than a man of 55 can obtain. This is true because a man 55 years of age has on the average a longer time to live than a man of 70 years, and the chances are that the insurer would have to make more income payments to the younger man. It should be clearly understood that this differential is in no sense a discrimination, because the age variation is a justifiable ground for the difference in the return. Moreover, the calculation is made on a truly scientific basis.

Likewise, a man 70 years of age can purchase a life annuity yielding a larger income for life with a given sum of money than a woman of the same age can buy. Women annuitants are proverbially long-lived, and statistics show that the vitality of female annuitants is superior to that of male annuitants. On the average, therefore, women live to receive more annuity payments than men of the same age.

The immediate life annuity calling for annual income payments costs less than one requiring semiannual, quarterly, or monthly payments, but, of course, the more frequent income payments are correspondingly more valuable to the annuitant. Under the former plan the annuitant gains the interest on $100 for six months each year.

Likewise, the loss to the annuitant in the year of death is generally less under the more frequent income payment plans. Considering the usual life annuity in which the last payment is that immediately preceding the death of the annuitant, the more frequent income payment forms are proportionately more valuable to the annuitant in the last year of the contract. There is also the convenience of receiving the life income frequently to meet living expenses, the costs of which must be paid currently. The companies are justified in the extra charge required for the monthly

and other frequent income payment plans because of the loss of interest, chance of paying more in the last year of the contract, expense of bookkeeping, mailing checks, and other miscellaneous expenses.

Separate rates are applicable for male and female lives. Typical rates for single premium life annuity contracts are usually provided by ages at last birthday for male and female lives separately on two bases:

1. Price of an annuity providing $100 payable each year, $50 payable each six months, $25 each three months, and $10 each month; and
2. Annuity purchased by $1,000—annual, semiannual, quarterly, and monthly.

Under the first plan the annuity provided is an even sum, such as $100 annually or $10 monthly, or multiples thereof, and the price of the contract is an uneven amount and the single premium is $1,000 or multiples thereof. Some companies do not publish rates for the life annuity for the younger ages, such as below 40 or 20, for the return on these annuities at the lower ages is not as attractive as at the older ages. The rates for ages older than 85 are the same as the rate for age 85. Although the rates are given in these tables for even ages at the last birthday, in determining the age of the annuitant for rating purposes the usual practice is to make some pro rata allowance for the time elapsed since the last birthday of the annuitant, such as for each quarter year or each month.

Annuities are available in various amounts to meet the requirements of all types of annuitants, but the companies often make certain regulations as to the minimum purchase price. Frequently, a company fixes a minimum purchase price, such as $1,000 or $500, for an immediate life annuity. Another common regulation is that the amount of the single premium must be sufficient to provide income payments amounting to a fixed minimum, such as $10 monthly. As a rule, the companies do not desire to draw a check for an amount less than ten dollars. In some instances maximum limits are placed upon the size of the income payments, such as $1,000 monthly or $12,000 annually. Some companies place a maximum limit upon the size of the single premium. These maximum limits restrict the liability of the company for any particular annuitant. The object is to avoid too great a concentration of risks.

Immediate life annuities are especially suitable for persons approaching the retirement age, such as those over 50 years of age, rather than for younger persons, although such annuities may be issued on younger lives. Life annuities are particularly adapted to the needs of unmarried persons and married couples with no children or those with children no longer dependent on them for support who are facing the problem of securing an adequate and guaranteed retirement income from their accumulated capital. For individuals possessing a limited amount of wealth who are reaching the period of life when they wish to be relieved of financial cares, the large yield from life annuities makes them particularly appropriate if it is not necessary to leave this accumulated money intact to pass on to dependents. Life annuities are also valuable for widows not wishing to assume investment and managerial cares but needing guaranteed life incomes. Life annuities are very suitable for men and women of considerable wealth as a means of providing definite re-

tirement incomes, regardless of what might happen to other investments.

Even where there are dependents that must be considered, it is frequently a wise plan for persons to use at least a part of the capital to purchase life annuities to safeguard their own old age. In many cases it is advisable for rich men and women to purchase adequate annuities to provide amply for their remaining years and then to give the rest of the money to the family while they are living. By this method the annuitants are assured of guaranteed incomes for life, and the heirs come into their inheritance sooner than if they had to wait for the death of the donor. This procedure also eliminates many of the troubles encountered in settling large estates. In some instances persons of considerable wealth desiring to leave money to charitable and educational institutions find life annuities the solution to their problems. With a portion of their capital they can purchase adequate lifelong incomes and at the same time be able to make immediate donations to some worthy cause. Furthermore, life annuities are sometimes used by institutions and individual employers to provide life incomes for aged and faithful servants and superannuated employees. In addition, parents frequently select such annuities to guarantee a life income for a particular child, especially one who is not capable of earning a living or one who is a spendthrift. Life annuities are also of particular advantage for trustees and executors who are instructed by agreements or wills to provide life incomes for certain individuals.

The life annuity pays the annuitant a greater return on his money during his lifetime than any other immediate annuity, but there is no guarantee for the return of the principal in the event of premature death. Under the life annuity the annuitant receives this maximum income from his capital and has the satisfaction that this guaranteed income will last during his entire life. Suppose, for example, that a man aged 65 has to depend for his living upon the income from his savings of $15,000. If this sum is invested in securities earning five per cent, it gives him only $750 a year, which is inadequate to provide for comfortable living and may not be altogether a certain or safe income. If this sum is used to purchase a life annuity, however, it provides a safe and permanent life income of over $1,200 each year. This is a material increase in the annual income from that obtainable from the investment in securities yielding five per cent return and allows the annuitant many more comforts of life. Although the yield on annuities for a woman is slightly less than for a man, a woman aged 65 with $15,000 can secure a yearly lifelong income of over $1,000.00 under such a life annuity. It would be almost impossible for this man or woman to get such a high return with safety in any other way. The return from a certain amount of capital under a life annuity is considerably greater than is possible if interest income only is relied upon from investments with any comparable degree of safety. Under such a contract the annuitant cannot lose the principal during his lifetime, and he is freed from all worries and anxieties over investments, watching the market, or even clipping coupons.

The greatest objection frequently raised to this life annuity is that the principal may be forfeited in case of early death and that it disappears at death. A real loss of the capital invested would mean that the income to the annuitant would vanish like-

wise. In an ordinary investment, when the principal is lost the income disappears also. This is not the case with this annuity during the life of the annuitant. What really happens is that the purchase price is averaged over the future and a portion is returned in each payment. This shows why the return is so great and why it increases with the particular age; as the age increases, the possible duration of the period over which the principal and interest must be returned to the annuitant is lessened. In this connection, it may also be pointed out that if a particular annuitant does not happen to live long enough to receive back the equivalent of the purchase price, there are other annuitants who share in the distribution of this capital. In other words, the insurance company is simply a medium or clearing house for the scientific distribution of the monies. Everybody really benefits from this service. *See* Annuities classified; Immediate annuities; Deferred annuities; Annuity idea.

Life annuity with death benefit. Under this unique single premium contract issued by some life insurance companies, the annuitant secures a combination of an immediate life annuity with a guaranteed death benefit of one half of the original purchase price of the contract, regardless of the amount of the income payments received during his lifetime. For example, for each $1,000 of the single premium consideration, a death benefit of $500 is guaranteed to a named beneficiary payable in a lump sum. This guaranteed death benefit is different from the refund provision of the cash refund annuity. Under this scheme the annuitant can use a sum of money to provide a guaranteed benefit of a certain amount to a designated beneficiary and at the same time employ this fund to increase the income for the remainder of his life.

Such contracts may be issued on a participating basis, the guaranteed income for the life of the annuitant being increased by dividends (the same for all ages) according to the earnings of the company. The amount of the death benefit is generally subject to cash or loan values, but the usual practice is that if this amount is taken in cash, the contract becomes nonparticipating for the original fixed income subject to a deduction of a certain amount. *See* Life annuities.

Life annuity with stipulated payments guaranteed. An annuity may be secured from some life insurance companies to provide income payments (yearly, half-yearly, quarterly, or monthly) to continue for the entire remaining lifetime of the annuitant with a guarantee to continue for 10, 15, 20, or other period of years, as specified in the contract, regardless of whether the annuitant lives or dies. Such an annuity is very similar to the refund life annuity except that the amount payable after the death of the annuitant is measured by the balance of the guaranteed yearly payments rather than by the balance of the purchase price remaining with the insurer. For example, the insurer agrees to pay the annuitant, in consideration of the statements in the application and the receipt of the required premium, a certain sum of money on the first day of June, 1950, if the annuitant is then living and a like amount yearly thereafter on the first day of June in each year during the subsequent lifetime of the annuitant. In addition, it is provided that if the annuitant dies before ten such payments are made, the income will be continued to the executors, administrators, or assigns of the annuitant until ten such

payments are made. *See* Life annuities.

Life beneficiary. The life beneficiary is the owner and controller of the policy. Usually the insured is the life beneficiary, but when the insured is under 16, one of the parents or someone legally responsible is named life beneficiary. The life beneficiary may borrow on the policy or surrender it for its cash value.

Life certificate. *See* Benefit certificate.

Life conservation. *See* Conservation work.

Life contingency. Payment of the proceeds under a life insurance policy depends on the death or survival of the person insured. The possibility of living or dying is measured by the mortality table. Though ultimately all risks will die, the contingency of the occurrence is what is involved in life insurance mortality calculations. Tables are available showing these life contingencies in terms of the survivors at the end of stated periods. The following is a typical example of such a table:

SURVIVORS AT END OF STATED PERIODS

Per Cent. of Number Living at Any Age That Survive a Given Period According to the American Experience Mortality Table

Age	10 Years	15 Years	20 Years	25 Years	30 Years	35 Years	Age
20	92.23	88.33	84.31	80 07	75.35	69.69	20
21	92.17	88.22	84.14	79.80	74.90	68.94	21
22	92.11	88.11	83.96	79.50	74 39	68.10	22
23	92.05	88.00	83.76	79.17	73.83	67.18	23
24	91.98	87.87	83.55	78.81	73.21	66.17	24
25	91.90	87.73	83.33	78.40	72.52	65.05	25
26	91.82	87.57	83.05	77.95	71.75	63.80	26
27	91.73	87.41	82.76	77 45	70.90	62.49	27
28	91.63	87.23	82.45	76.89	69.96	61.04	28
29	91.53	87.03	82.09	76.26	68 92	59.46	29
30	91.41	86.81	81.70	75.57	67.79	57.75	30
31	91.29	86 57	81.26	74.79	66 54	55.90	31
32	91.15	86.31	80 76	73.93	65.17	53.92	32
33	91.00	86.01	80.21	72.98	63.68	51.79	33
34	90.83	85.68	79.59	71.94	62.06	49.53	34
35	90.65	85.31	78 91	70.78	60.30	47.14	35
36	90.45	84.90	78.14	69.52	58.41	44.61	36
37	90.22	84.43	77.29	68.13	56.37	41.98	37
38	89.97	83.90	76.34	66.61	54.18	39.24	38
39	89.69	83.32	75.30	64.96	51 85	36.44	39
40	89.37	82.66	74.15	63.17	49.38	33.59	40
41	89.01	81.93	72.89	61.24	46.78		41
42	88.60	81.11	71.50	59.15	44.05		42
43	88.14	80.20	69.98	56.92	41.23		43
44	87.63	79.20	68.32	54.53	38.32		44
45	87.04	78.08	66.52	52.00	35.37		45
46	86.39	76.86	64.57	49.33			46
47	85.66	75.51	62.47	46 53			47
48	84.85	74.04	60.22	43.62			48
49	83.96	72.42	57.81	40.63			49
50	82.97	70.68	55.25	37.59			50
51	81.88	68.80	52.55				51
52	80.69	66.76	49.72				52
53	79.39	64.57	46 77				53
54	77.97	62.23	43.74				54
55	76.42	59.74	40.64				55
56	74.74	57.10					56
57	72.93	54.31					57
58	70.97	51.40					58
59	68.86	48.39					59
60	66.59	45.30					60
61	64.18						61
62	61.62						62
63	58.92						63
64	56.10						64
65	53.17						65

Life expectancy policy. Level insurance for life is provided under this type of policy. It is term insurance covering the period of the insured's expectation of life.

The premium is lower than ordinary life to the end of life expectancy, taken to the nearest year according to the American Experience Mortality Table.

Alternative options at expectancy age are as follows in some companies:

1. Cash surrender.
2. Paid-up value.
3. Extended term.
4. Continue original premium and surrender half the insurance for cash.
5. Continue original premium and surrender half the insurance for paid-up, making total insurance of from 60 per cent to 80 per cent of the original insurance.
6. Continue original premium and surrender half the insurance for extended term, giving the full initial insurance for the extended term period and one-half the initial insurance thereafter.
7. Continue original insurance for life at increased premium, which is twice the original premium without disability provision.

If the policyholder is in receipt of disability benefits at the expectancy age or if he does not elect one of the other options, the seventh option takes effect. Generally, the underwriting conditions provide that the policy is:

(1) Issued with or without disability provisions.

(2) Issued at ages 16 to 60 inclusive.

(3) Issued substandard with flat extra premiums, but not with percentage rating.

(4) Issued with the understanding that extra premiums for continuous installment benefits are the same as on ordinary life and do not increase at the expectancy age.

Among the special features of this policy, the following should be noted:

(1) gives permanent insurance at lower rate than ordinary life by permitting an adjustment in premium or insurance in the later years of life, when the death rate is high but the need for continued full insurance not always present.

(2) increased premium if original insurance continued is far less than new insurance would cost at the same age or even at ages somewhat younger.

(3) reduced insurance if half of the original contract is surrendered, but paid-up remains a high proportion of the original insurance.

(4) since the adjustment in premium or insurance is fixed at the end of expectancy, it comes at an earlier age for policies issued at younger ages and later for those issued at the older ages.

(5) reduced rate in early years made possible because of the probability that full insurance will not be desired in old age, but the contract is flexible in that it permits keeping up the full insurance if then desired, at a moderate premium.

Chief among the practical uses of this policy the following should be mentioned:

(1) for family protection, in view of the fact that full insurance will probably not be needed in old age, when children have grown up and the after lifetime of wife is shortened.

(2) for business insurance, where a reduced amount of insurance would probably indemnify the firm against the death of an important member of the firm if that occurred in later life, inasmuch as men would probably have been developed to take over his responsibilities.

(3) for the businessman who is not interested in cash values but wants the maximum protection over a long period of years at the least possible cost.

Life income policy. *See* Income policy.

Life insurance. *Life insurance* may be defined in a number of ways. Some of the definitions approach the sub-

ject from a legal, an economic, a social, a historical, a mathematical, and a philosophical standpoint. Life insurance has been defined by the insurance laws of Oregon as insurance "on the lives of persons and every insurance appertaining thereto or connected therewith, including endowments, and to grant disability benefits and purchase or dispose of annuities."

Life insurance has been defined from the community standpoint (A. H. Willet, *The Economic Theory of Risk and Insurance,* p. 106) as "that social device for making accumulations to meet uncertain losses through premature death which is carried out through the transfer of the risks of many individuals to one person or a group of persons."

Justice Gray, in *Commonwealth v. Wetherbee,* 105 Mass. 149, gives a definition of life insurance which has been approved by writers as well as courts as the clearest definition of life insurance:

> A contract of insurance is an agreement by which one party for a consideration, which is usually paid in money, either in one sum or at different times during the continuance of the risk, promises to make a certain payment of money, on the destruction or injury of something in which the other party has an interest. In fire and marine insurance, the thing is property; in life or accident insurance, it is the life or the health of a person. All that is requisite to constitute such a contract is the payment of the consideration by the one and the promise of the other to pay the amount of the insurance upon the happening of injury to the subject by the contingency contemplated in the contract.

Charles W. Scovel, one of the ex-presidents of the National Association of Life Underwriters has defined life insurance in the following manner:

> Life insurance is a science; an applied natural science; the application of Nature's law of mortality. That law, in all its varied manifestations, is the very stuff of which the science and practice of Life Insurance are woven. At the bottom, it is very simple. The science gives us an advance schedule of the maximum number of deaths that will occur in a large group of normal lives, year by year, to the end. The closest parallel would be an issue of corporate bonds, of which known amounts are scheduled to be paid off year by year, though the particular bonds to be called are not known until singled out each year by lot. We call the bonds "policies," and let death cast the lot; that's all. The advance schedule is the main thing in either case; by it can be figured with certainty how much must be in the sinking fund from time to time to make all those future payments to the very end. We call this sinking fund the "legal reserve"; it is accumulated out of policyholders' premiums, aided by the magic of compound interest with time enough to work out. It must always contain the full amount required for all outstanding policies, making their payment certain, whether any more new insurance is written or not.*

As early as 1850, in *Mutual Benefit Life Insurance Co. v. Ruse,* 8 Ga. 534, a life insurance contract was held to be a contract from year to year, and, in 1857, a similar decision was given by an Ohio court. In 1858, a New York Court held (*Ruse v. Mutual Ben. Life Ins. Co.,* 26 Barb. 556) the life insurance policy insuring for life to be not a contract from year to year, but an entire contract. In a case before the Supreme Court of the United States in 1876, in *New York Life Insurance Co. v. Statham,* 93 U. S. 24, Justice Bradley said: "The contract of insurance is not for a year, with the privilege of renewal from year to year by paying annual premiums, but it is an entire con-

* Used by permission of National Association of Life Underwriters.

tract of insurance for life subject to discontinuance and forfeiture for nonpayment of a stipulated premium." The form and provisions of the particular life insurance policy must be considered in this connection. Mutual benefit and fraternal contracts are usually held by the courts not to be contracts for life since the assessments paid carry the insurance only for a limited period.

A life insurance policy may have provisions limiting the liability of the company to a reduced amount in the case of death: (1) from certain designated causes, such as violation of law or imtemperance; (2) suicide; (3) certain chronic disease (pulmonary disease); (4) within a certain time after the inception of the policy, such as three months, six months, one year, and so forth; and (5) while in military or naval service. Also, various deductions may be made in life insurance policies. For example, if the insured makes a mistake regarding his age, the amount payable is reduced to the amount applicable for the right age. Also, deductions may be made for unpaid premiums due.

Premiums for all forms of life insurance policies are mathematically equivalent, because their rates are calculated from the same assumptions. Life policies differ one from the other in (1) terms of purchase, and (2) terms of settlement.

A table showing life insurance growth since 1880 and its prophesied growth by 1950, issued a few years ago by the National Association of Life Underwriters, shows:

THE GROWTH OF LIFE INSURANCE IN AMERICA

In 1880 the life insurance in force was $	1,602,961,165
In 1890 " " " " " "	3,582,986,703
In 1900 " " " " " "	7,774,280,000
In 1910 " " " " " "	15,480,721,211
In 1920 " " " " " "	35,880,126,583
In 1930 at present rate of inciease the insurance in force will be	70,000,000,000
In 1940 there will be in force	140,000,000,000
In 1950 there will be in force	280,000,000,000

The total amount of life insurance in force at the end of 1946 was estimated to be 150 billion dollars.

One of the best descriptions of the functions of life insurance has been given by the Union Central Life Insurance Company as follows:

1. *Pays debts.*

(a) A moderate life insurance cleanup policy pays final expenses, cost of last illness, and current bills.

(b) It is an excellent plan to recommend a policy to cover specific indebtedness. In event of death, the widow is relieved of this burden. Banks are more liberal with credit when loans are protected in this way.

(c) Mortgages. A policy which will retire the mortgage in event of death may prevent loss of the home or farm by the widow. Premiums on such a policy may be considered a one or two per cent additional interest.

(d) An Estate Transfer Policy pays federal estate taxes; state inheritance taxes; probate and court costs; lawyers', executors', and administrators' fees, and so forth, and allows estate to be handed over to heirs intact.

(e) Immediate cash is available at death—a time when it is sorely needed and seldom otherwise provided.

2. *Protects the family.*

(a) Guarantees an income to the wife and children, so keeping the family together.

(b) Monthly income settlements prevent extravagance and squandering of principal.

(c) An adjustment policy provides living expenses until other assets are released from probate.

(d) A cash inheritance to start a son in business.

(e) A life income for a daughter allows her financial independence if single, or in event of an unfortunate marriage.

3. *Educates the children.*

(a) In case of death, a life insurance educational policy takes up the parents' responsibility and provides the neces-

sary income to the children during their school and college life.

(b) Or, protection in event of death and accumulation of education fund if living can be combined into a single policy.

4. *Provides financial independence in old age.*

(a) A combination of protection plus savings.

(b) A life pension, or perpetuated income after retirement from business.

(c) A joint retirement income for insured and wife as long as the survivor lives.

(d) A "travel" fund for old age.

5. *Establishes an emergency fund.*

(a) A "rainy day" fund in every policy. The amount of loan guaranteed at a fixed rate of interest.

(b) Cash immediately available in event of sickness or unemployment, and so forth.

(c) No indorser to note required or other real or personal property as security.

6. *Provides an income in case of total permanent disablement.*

(a) Arrangement may be made in the policy to provide a fixed income in case of total permanent disability.

(b) In case this occurs within the limitations of the policy, the protection for death is not affected, but the premiums are waived during disablement.

7. *Provides double indemnity.*

(a) Arrangement may be made whereby benefits are doubled in event of death by accident. In this way, the insured is compensated for loss resulting from his being prevented from personally putting his affairs in order.

8. *Is an investment not an expense.*

(a) Every life insurance policy (except term) will mature for its full value.

(b) It returns more than the amount invested.

(c) It is a nonfluctuating asset, requiring no attention.

(d) It is absolutely safe. Seventy-five per cent of life insurance company assets are invested in mortgages on our country's choicest farm lands. Value of security is four times the amount of money loaned. All Company affairs are subject to rigid governmental supervision.

(e) It is an impelling impetus to save money regularly and systematically.

9. *Safeguards business.*

(a) Strengthens credit.

(b) Indemnifies business for loss of important executive.

(c) Provides retirement fund for officers or employees.

(d) Retires interest of deceased member of partnership.

(e) Forms a cash asset immediately available for time of emergency. During financial stringency, banks sometimes refuse to loan on any security.

10. *Provides for gifts and bequests.*

(a) Guarantees endowments for religious and educational institutions, and so forth.

(b) Provides pensions for distant relatives, faithful employees, or servants.

11. *Has full power to provide these things. Is available now if necessary.*

(a) Guarantees immediately the amount of the estate.

(b) Prevents worry.

(c) Constitutes a will no lawyer can break.

(d) Is the only method of accumulating an estate which cannot be interrupted by death or disablement.

(e) Is the only instrument of finance which will yield a certain sum at an uncertain time.*

Life insurance agent defined. *See* Agent.

Life insurance company defined. A life insurance company is a corporation that issues life insurance and annuity contracts under special laws regulating the formation and operation of such organizations.

Life insurance disability provisions. *See* Waiver of premium; Total and permanent disability; Disability benefits.

Life insurance policy. *Life policy* is the term applied to a policy of life

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* Used by permission of the Union Central Life Insurance Company.

insurance that is payable only at the death of the policyholder, when that event happens, but no sooner. Such a policy should be distinguished from an endowment policy, the proceeds of which may be paid upon the survival of the assured to a stipulated period. In general, there are three kinds of life policies, the chief distinction being in the mode of premium payment. These three types are: (1) whole life (also called *straight life* and *ordinary life*), on which premiums are paid so long as the policyholder lives; (2) limited payment life, on which the number of premium payments is limited to, say, 10, 15, or 20 years; and (3) single premium policy, on which only one premium is paid in a lump sum. *See* Endowment insurance; Term insurance.

Life insurance trust. A life insurance trust is an arrangement whereby the proceeds of insurance are turned over to a trustee upon the death of the assured, to be invested by the trustee for the benefit of the persons designated as beneficiaries of the insurance, or distributed as the creator of the trust indicates in the agreement. The trustee uses his discretion in the management of the investments, subject to legal requirements and to such limitations as the donor of the trust may have imposed.

Although the American woman, according to Henry Abels, Vice President of the Franklin Life Insurance Company, is capable, as a beneficiary, of efficiently handling the lump sum proceeds of life insurance policies, one form of the life insurance trust is largely for the purpose of rendering a service to women in the protection and conservation of life insurance estates. During recent years, there has been a striking development of the trust idea in life insurance with the object of making the proceeds from a life insurance policy provide a definite income for the family. Both life insurance companies and trust companies are interested, for more than 90 billions of dollars are involved.

Under the *optional modes of settlement* provisions of life insurance policies, an effort is made to conserve the proceeds of a policy in one of three fundamental ways, such as: (1) proceeds of policy left at a guaranteed rate of interest; (2) proceeds settled by payment of installments for a specified number of years; and (3) proceeds settled by payment of a life annuity to the beneficiary, with a specified number of years' payments certain whether the beneficiary lives or dies. The life insurance trust operates either by having the proceeds under the policy paid to the trust company as beneficiary or assignee under the policy, or it can receive the proceeds as executor and trustee under the policyholder's will, the policies having been made payable to his estate.

The first method, known as the *insurance trust plan,* is considered the better method because: (1) no court costs and legal fees are involved; (2) some exemptions from state inheritance taxes are permitted; (3) it is free from will contests; and (4) fraudulent claims are less likely to happen. The second method, called the *estate plan,* involves a number of difficulties and does not have the advantages of the insurance trust method. Some of the other merits of the insurance trust method are: (1) the cost of operation is definitely known; (2) the system operates without delay; (3) the plan is flexible and can take care of contingencies as they arise through the trust management.

The insurance trust allows the trustee the power to use discretion in administering the funds. Moreover, expert money management is assured.

There is always the possibility of a substantial increase in the value of some securities held by the trust company which will tend to offset any decline in others. Thus, the insurance proceeds are adequately safeguarded by the insurance trust.

Among the advantages of the life insurance trust the following may be mentioned:

1. Any life insurance trust is an estate builder; it creates at once an estate that might otherwise require years to build.

2. The settlor can accomplish by a life insurance trust almost any result he could accomplish by making a will.

3. The plan is flexible; the settlor may dispose of the income or proceeds of the insurance in any way he sees fit.

4. The life insurance trust can be made subject to modification or revocation by the settlor, so that he maintains control of its conditions during his life.

5. Life insurance trusts prevent shrinkage of estates by providing cash for the payment of inheritance taxes, debts, and administration expenses.

6. Beneficiaries are not exposed to the evils that accompany inheritance of a lump sum of money, such as temptation to invest in untried ventures, or dissipation of the fund through unwise expenditures or poor management.

7. A regular income to the beneficiaries is assured.

8. The trustee who is given discretionary powers may by shrewd investment cause the size of the estate to increase.

9. The settlor is assured that the trust fund is safe, that it will be carefully and conservatively managed, and that his wishes will be carried out.

10. The heirs of the settlor are relieved of the worry of managing an estate. *See* Optional modes of settlement.

Life limited-pay policy. *See* Limited payment policy.

Life pensions. *See* Life annuities; Group pensions.

Life register. In industrial life insurance, premiums are collected on a weekly basis, as a rule. The book containing the list of policyholders from whom the agent is to collect premiums is often called the *life register* or *debit book.* It is the sum total of the weekly premiums that the agent is required to collect. Amounts collected from policyholders are recorded in this collection book and inspected or checked at irregular intervals by company inspectors or superintendents. *See* Lapse register.

Life tables. Life tables are instruments that show the number of persons who will live to a certain age, the number who will die at specified ages, and the rate of mortality. Probability of survivorship is the most common element in these tables. *See* Life contingency; Mortality tables.

Life value. *See* Capitalization of life value.

Limitation of expenses. In New York and Wisconsin there are laws limiting the amount that an insurance company may spend on expenses. Under the New York law, a schedule, known as Schedule Q, is required to be given in the New York State annual statement blank. Wisconsin places a limit on the amount of the loading that may be added to the net premiums. The purpose of limiting expenses is to control initial commissions, new business expenses, advances to agents, certain home-office salaries, medical examinations, and inspection expenses.

Limitation on investments. *See* Supervision and regulation.

Limitations of agents' authority. Agents are not authorized to accept risks; to make, alter or discharge contracts; to extend the time for payment of any premium; to waive forfeitures; to appoint medical examiners; or to receive monies due or to become due to an insurance company—other than the initial premium on applications secured, or on contracts issued and delivered to the satisfaction of the policyowner. They are not permitted to publish anything concerning the business of their own or any other company, or to print any circular or advertisement without first having copy submitted to and approved by the home office.

Limited income settlement agreement. Under the limited income agreement the proceeds are paid to the beneficiary in equal installments over a fixed term of months or years, not to exceed 20 years. The agreement may provide, if desired, that if the beneficiary does not survive to receive all the installments, they may be continued to a contingent beneficiary.

There is an important distinction between this type of agreement and the "exhaustion" settlement agreement if the insurance is encumbered by a loan when the proceeds are received in trust. Under the limited income agreement the amount of each installment would be decreased proportionately, but under the "exhaustion" agreement the full amount of installment would be paid for a reduced period.

In applying for this type of agreement it is necessary to specify limited income agreement, state how often and for how many years the installments are to be paid, and name the contingent beneficiary, if any. *See* Optional modes of settlement.

Limited payment life policy. There is a whole life policy on which the assured pays only a stipulated number of yearly premiums, after which the policy is fully paid up, although the contract does not mature until after the death of the policyholder. Such policies provide for payment of premiums for 10, 15, or 20 years, and occasionally for other periods.

A life policy of this kind is the same as a whole life (ordinary life) policy, except that the total premiums payable instead of being distributed over the whole life, are limited to a fixed period of years, such as 10, 15, 20, 25, or 30. The policy is then fully paid, and its face amount becomes payable at the death of the policyholder. In brief, it is a whole life policy payable in limited number of premiums. Dividends may be applied to this limited payment policy just the same as in the case of the ordinary life policy, or may be paid in cash at the end of the term. Because the time of premium payments is limited, the charge for the annual premium is higher than that for a whole life policy.

Some of the merits that may be claimed for the limited payment policy are: (1) it provides a permanent form of protection; (2) payments of premiums are confined to the most productive years of one's life when such payments can most easily be made; (3) the policy also involves a savings element; (4) when all premiums are paid, protection is established for life; (5) it can usually be changed to another form of policy. The limited payment policy is an ideal one for: (1) professional men, such as doctors, lawyers, teachers; (2) businessmen whose returns are likely to fall off at the age when they become somewhat inactive; (3) any individual whose income is likely to be materially reduced or cut off after his productive years. Some companies have discouraged the sale of this contract where the premium-paying pe-

riod is short because of the current low interest rates.

Limit of age. Most companies limit the age at which they will write insurance. Because of financial and mortality reasons most insurance is written between the ages of 25 and 50. At the younger ages, except for juvenile insurance, the potential applicants cannot pay the premiums. At the older ages, the applicant is not always a desirable risk. Insurance at extreme ages is not good underwriting unless very careful selection is made. *See* Age of insured.

Limit of life. Life insurance companies are interested in the problem of promoting longevity or extending the limit of life. As set forth in the American Experience Table, age 96 is assumed to be the limit of life. The American Men (Ultimate) Table carries the limit of life to age 103, whereas the new Commissioners Standard Ordinary Table brings the limit of life to 99 years.

Limits. Many different types of "limits" are found in life insurance practices. Some of the more common of these are limits on: (1) the authority of agents; (2) ages of applicants; (3) expenses; (4) new business written; and (5) amount of insurance written.

Liquidations. When insurance companies become insolvent because of financial difficulties, the insurance commissioner takes temporary control for the protection of policyholders. New York State has enacted a special guaranty fund that has as its objective the financial stability of companies. Reinsurance is another device that is used to manage companies in financial difficulties. For lists of insolvent companies, and those in the process of liquidation, see yearly reports of insurance commissions of the various states.

Lives not taken. This term refers to the situation when a risk has been submitted to the home office and the applicant is finally rejected for insurance. A person may be an unacceptable risk because of many underwriting reasons such as occupation, moral hazard, and poor health.

Loading expense. Loading expenses may be defined as the amount added to the net premium to take care of the expense of carrying on the business. It may be defined as the difference between the net and the gross premium. The loading is calculated upon an assumed rate of expense. Premiums that are called net premiums do not take into consideration what is termed *loading,* which is an additional expense item. The mortality cost in life insurance is covered by the net premium, but the loading is necessary to take care of the marketing or selling expense. Under the term *loading,* there are a number of particular expense items, but as a general proposition these may be roughly divided into two main classes. Under the first classification may be grouped those expenses which are approximately constant for each policy irrespective of the age, premium, or plan of insurance. Illustrations of this type of expense are found in such matters as home office maintenance, inspections, rents, taxes, salaries, supplies, postage, and so forth. The second group includes such expense items as commissions, renewal commission, cost of collections, and so forth.

The gross premium is made up of the addition of the loading expense to the net premium, and the gross premium, sometimes referred to as the *tabular* or *office premium,* is the one that the agent quotes in selling the average insurance policy. *See* Premium; Gross premium.

Loan insurance. This is a form of insurance that enables a policyholder to cover the amount of a loan on a

policy. The object of this insurance is to protect the full face value of the policy on which a loan is made. In case of the death of the insured before a loan is repaid, the loan insurance will enable the company to cancel the indebtedness leaving the regular policy unencumbered.

Loans. Most policies of life insurance provide that after the contract has been in force for a number of years (usually two or three years) the policyholder may borrow from the company on the security of his insurance contract up to the cash surrender value of the policy. It should be noted that the insurance company may reserve the right to put off the granting of such a loan for a period of at least 90 days. Immediate granting of a loan might mean a severe hardship to a company, especially during a panic or financial crisis. Although it is true that the loan privilege is included in nearly all endowment life insurance policies, and is, under certain circumstances, a real benefit to the policyholder, nevertheless it should be emphasized that when money is borrowed on the security of the insurance policy the purpose of the contract is defeated, since the money is really borrowed from the beneficiary, the amount of the loan being deducted from the sum paid to the beneficiary in case the policyholder dies before the loan is repaid.

A summary of the leading features of the policy loan provisions embodies the following ideas:

1. Loans are made on the sole security of the policy.

2. The policy is assigned to the insurance company.

3. Any unpaid balance of the current year's premium is deducted from the loan.

4. Any indebtedness and previous advances are deducted from the amount of the loan.

5. An interest charge, varying from five to six per cent is made for the loan.

6. Failure to repay the loan will void the policy when the loan or the total indebtedness (loan plus interest) equals the loan value of the policy.

7. Consummation of loans other than to pay premiums on policies in the company making the loan may be deferred 90 days from the date of application for the loan unless the state law provides otherwise.

8. Policies contain no provision for repayment of loans. Many companies, however, have developed unique loan repayment methods that are commendable.

Local agent. A local agent is a representative of an insurance company and is engaged in directly writing the business. His remuneration is usually in the form of a percentage of the premium. He receives this payment in the form of commission from the general agency or branch office where he is connected. In general, the acts and knowledge of such an agent are considered as acts and knowledge of the company, although the authority of local agents is limited. The company, however, depends greatly upon his judgment in accepting certain risks. *See* Agent; Broker.

Local assessment mutual. *See* Mutual company.

Lodge benefit society. *See* Fraternal insurance.

Lodge system. *See* Fraternal insurance.

Loss from loading. If the actual expenses of a company are higher than the assumed expenses under the loading formula or method used, a loss from loading is said to happen. *See* Loading expense.

Lost policy voucher. If an agent of a company loses one of the blank policies furnished him by the company, he usually fills out and signs a voucher and sends this voucher to the company. This voucher simply states that the blank policy form has been lost, that the company is relieved of all liability thereon, and that the blank form will be returned if found.

When a policyholder loses or misplaces his policy of insurance, sometimes he is requested to complete a voucher which states that he has lost his policy and the insurance company is released from all liability thereunder. If the assured wishes a new policy to replace the lost one, this can be arranged in one of two ways under property insurance forms, as follows: (1) under a new policy simply to complete the rest of the term for which the old policy was to run; (2) under a new policy to run for a full period, credit being allowed on this new policy for the unearned premium on the old policy. If the policy is to be rewritten, the return premium is usually figured on a pro rata basis; if the policy is to be canceled, the return premium is usually figured on a short-rate basis.

In life insurance, when satisfactory proof of the loss or destruction of a policy is furnished upon blanks supplied by the company, a copy of the policy will be issued by the company. A life insurance policy is not a negotiable instrument, and its loss does not destroy its value to the insured or beneficiary.

Lower mortality. In speaking of the term *lower mortality,* it should be remembered that it is used in many different ways. Generally speaking, there is a lower mortality among the so-called commercial policyholders than among the industrial policyholders. Many investigations have been made relative to the effects on the rate of mortality of various occupations. Clergymen and teachers have a lower mortality rate than mechanics as a group. Domicile plays an important part in the mortality rate. Race is another element to consider, for some races appear to have a lower mortality rate than others, especially in connection with certain diseases. Family history, to some extent, is a feature in the mortality rate of individuals. Even weight and build are vital to a lower or higher mortality, the medico-actuarial investigation showing that a moderate degree of underweight is desirable to the best mortality rate after middle age. *See* Mortality tables.

Lower premiums. This term is used in a number of ways in life insurance. Premiums are said to be lower for a term policy than for an ordinary life, or endowment at the same age and for the same amount. Group insurance is said to furnish protection at lower premiums than ordinary or industrial life insurance. The distinctive feature of a certain policy, such as a "modified life" or "economic adjustment" policy is said to be the lower premiums during the first two years.

Lump sum payment. *Lump sum payment* refers to the payment, under a life insurance policy, to the beneficiary. If the total proceeds of the policy are paid to the beneficiary at one time, it is called a *lump sum payment.* One insurance company has the following to say about lump sum payments:

> The lump sum settlement is suitable, in general, in furnishing a given amount of money, for example, in satisfying a debt; the paying off of a mortgage; payment of inheritance taxes; leaving contributions to charitable institutions or

furnishing an endowment fund to schools, colleges, churches, or similar institutions; providing ready cash for any obligations which may arise and call for payment at the death of the insured. Lump sum settlements are also suitable, in most cases, where life insurance policies are taken for business reasons, for example, upon the life of a valued officer or employee by a business organization; in partnership insurance, where the purpose is to supply funds with which to buy out the interest of a deceased partner; or in the securing of a stock issue of a corporation.

In recent years, the tendency has been to advocate installment settlements where the object of insurance has been to provide an income for dependents. *See* Income policy.

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Masonic relief association. Masonic relief associations are organizations that are not of a secret or fraternal nature, but confine their membership to members of the Masonic order. In the case of *Bolton v. Bolton,* 73 Me. 299, the court held the contract of such a Masonic relief association to be a contract of insurance even though membership was limited to those belonging to the Masonic order. Other cases have held that such associations are not insurance companies within the meaning of the statutes of the state. Such insurance is not usually considered fraternal insurance, but co-operative assessment insurance, or regular insurance. *See* Fraternal insurance; Mutual benefit association.

Mass insurance. *See* Group insurance.

Matured endowment. *See* Maturity of policy.

Maturity dividends. These are in the nature of extra or special dividends in addition to the regular dividend. Such payments arise out of the manner in which a company distributes its surplus to policyholders. If this dividend is paid on the maturity of an endowment, it may be called a maturity dividend, strictly speaking. The term *special settlement* dividend is also used, especially if the distribution is at the time of the death of the insured. *See* Distribution of surplus.

Maturity of policy. The term *maturity* means, in the case of endowment life insurance policies, the date at which the policy becomes payable as an endowment, and, in the case of deferred annuities, the date on which payment of annuities commences. In the case of a whole life or straight life policy, the contract is said to mature upon the death of the policyholder. Maturity of the contract almost invariably implies a payment of a loss, whereas a policy may *expire* when no loss is actually paid or to be paid. Many property forms of insurance, written on the annual basis, terminate with payment of loss and are renewed upon payment of the premium by the assured and the acceptance of the risk by the insurer. Term life insurance policies may be said to mature without payment of loss, and the failure to collect is sometimes considered one of the drawbacks of term life insurance. *See* Endowment insurance.

Maximum and minimum amounts. Most companies limit the maximum and minimum amounts of insurance they will accept.

Personal life insurance in excess of the following limits is generally regarded as speculative, and only in exceptional cases and after thorough investigation will amounts in excess of such limits be approved by many companies:

Ages	*Times Annual Earned Income*
20–24	10
25–29	9
30–34	8
35–39	8
40–44	7
45–49	6
50–54	5
55–59	4
60–64	3
65–	2

This is a practical scheme of fixing the life value for insurance purposes.

Smaller incomes require special consideration, and as the income varies downward from $5,000 these factors should be scaled down. For annual incomes of $2,000 or less it is probable that 60 per cent of this schedule represents a reasonable limit. Double indemnity in excess of twice the insured's income or in excess of $25,000, whichever is smaller, should be considered as life insurance when applying these limits. Earned income means the following:

(1) To the salaried man—salary and bonuses received.

(2) To the capitalist—the excess over 5 per cent received on total estate.

(3) Returns from investment in own business in excess of 5 per cent on that investment may be considered earned income.

Maximum income life annuity. *See* Life annuities.

McClintock Table. The annuity business in the United States, in contrast to England, has been conducted only by life insurance and annuity companies. In the absence of tables based on American experience of annuitants, the charges for the early annuities sold in the United States were based on the English mortality tables. However, the actuary of the Mutual Life Insurance Company of New York, Emory McClintock, in 1899 published the results of an investigation of the mortality under annuities sold by fifteen annuity companies in the United States. These data covering 9,186 lives included the annuities issued by these companies all over the world. From this experience McClintock made various adjustments that seemed reasonable and compiled an aggregate mortality table for male and female annuitants separately, known as the McClintock Table. Inasmuch as approximately 75 per cent of the statistics concerned annuitants who were natives of other countries, this table was not particularly representative of American experience. It was adopted, however, by New York, Massachusetts, and other states as the recognized table for the valuation of annuities, and it was so used by the life insurance companies. *See* American Annuitant's Table; Standard Annuity Table.

Mean or midyear value. Briefly, this is the arithmetical average of the initial and terminal values of the policy year of valuation. The mean or midyear valuation method does away with the necessity of computing the terminal values of each policy. The assumption is made that policies written during the current year have been in force for an average length of six months, and policies written during the previous year have been in force for an average duration of one year and a half. Mean or midyear values may be computed according to the preliminary term, modified preliminary term, or select and ultimate method. In order to meet the legal requirements of the state insurance departments, valuation of policies is sometimes ascertained on the mean or midyear basis. *See* Reserves.

Mean reserve. In life insurance practices, the average of the initial reserve and the terminal reserve of the current policy year is called the *mean reserve.* One half of the sum of the

initial and terminal reserves of the policy year is often called the *mean reserve.* The significance of the mean reserve is that it is used to estimate the total liabilities on policies in force at the end of the financial year. *See* Initial reserve; Terminal reserve.

Median lifetime. If it is assumed, according to the American Experience Table of Mortality, that all the persons of any given age must die between their present age and age 96, they will live half, on the average, that long. This is known as the *median lifetime,* and is based on the assumption that one half will die in the first half of the period and the other half will die in the second half of the period. *See* Probable lifetime.

Medical examination. In making an application for life insurance, the prospect must answer questions asked by the agent and then take a medical examination. The formal side of the medical examination, so far as life insurance is concerned, may be divided into two parts: (1) the statements made to the medical examiner by the prospect; and (2) the report of the medical examiner to the insurance company.

Under the first of these parts, the prospect must answer questions pertaining to the following: (1) his personal history of sickness and injuries; (2) his habits, especially in regard to use of alcohol; (3) his physical condition; (4) his environment; and (5) the history of his family relative to health and longevity.

Under the second part, the medical examiner reports to the insurance company the following information about the applicant: (1) how the prospect appears generally; (2) nature of applicant's build; (3) condition of prospect's internal organs such as heart, lungs, kidneys, and so forth; and (5) an opinion by the medical examiner relative to the insurability of the risk.

In life insurance, the medical examination plays an important part. The object of the information secured through the medical examination and the medical history of the prospect is to determine whether the applicant is an ordinary risk. Defects that cause an undue hazard may cause the risk to be written as a substandard risk. There is a tendency in one direction to nonmedical coverage. On the other hand, some companies have leaned in the direction of a more strict medical examination and the creation of higher standards. *See* Nonmedical insurance.

Medical information bureau. A medical information bureau is a central bureau in which are noted records of all impairments reported by member companies. This information is available to all the member companies and is a very valuable asset to their records for checking up on applicants.

Membership certificate. *See* Benefit certificate.

Mental derangement. *See* Suicide.

Method of purchasing life annuities. Immediate life annuities require a lump sum payment of the entire premium in advance, but deferred life annuities may be secured either by single or installment premiums. This point is very important from the standpoint of the annuity agent and the prospective annuitant.

Briefly, all ordinary immediate life annuities require a lump sum payment of the entire purchase price in advance. This group includes the ordinary life annuity, installment refund life annuity, cash refund life annuity, and the joint life and survivorship annuity. Of course, repeated purchases at various times may be made of additional single premium annuities.

Although many deferred annuities are issued for annual or other installment premiums, there are the single premium deferred annuities of various types. The installment premium deferred annuity contracts, however, are very popular. Under the annual premium deferred annuity, premiums are paid every year during the fixed period sufficient to secure an immediate annuity of the specified amount and type at the end of this deferment period. Measuring from a certain age it may be said that a longer deferment period requires a proportionately smaller annual premium to provide a given annuity, not only because less money is required to provide a given income twenty years hence than ten years hence but also because compound interest has a longer time to operate on the premiums. Under the annual premium retirement annuity, the premiums are payable during the *tentative* deferment period, which may be shortened or lengthened at the option of the annuitant (according to the terms of the contract), with a corresponding change in the amount of the income available. Under the usual survivorship annuity, the premiums are payable during an indefinite period contingent upon the continuance of the life of the insured. *See* Life annuities.

Military or naval service. Insurance companies issuing life or accident insurance usually place in their policies provisions protecting them against increased hazards resulting from military or naval service. Such a clause may call for (1) an additional premium payment to cover the increased hazard; (2) a reduction in the amount of insurance applicable in case of death or injury arising from such service; or (3) a forfeiture of the policy if the insured is engaged in military or naval service. An example of such a provision as contained in a life insurance policy is as follows:

> The company shall not be liable for any payment under this policy if death shall directly or indirectly result from engaging as a passenger or otherwise in aeronautic or submarine operations, from war, riot, or insurrection or from any act incident thereto, from military or naval service in time of war.

The usual rule is that, if such clauses may be given two meanings, the interpretation most favorable to the insured is used. There have been many court decisions on such exclusions in insurance policies. It has been held that a person has entered as a soldier subject to military orders even though he is only in training. It was held, in one case, that death from influenza which was epidemic both in civilian and military population while in military training was not within the exception intended by this clause. It was asserted that death of a soldier in an automobile accident while on furlough from military service was not caused by a risk of military service. In *Vanderbilt v. Travelers' Ins. Co.*, 112 Misc. 248, 184 N. Y. Supp. 54, it was asserted that death caused by the sinking of the *Lusitania* was considered as coming within the exclusion in a policy stating that it did not cover death resulting directly or indirectly from war. *See* War clauses.

Minimum insurance. This term may refer to the lowest size policy that a company will write, such as $1,000 or $500. The expression is also used in connection with certain special whole life policies, such as the preferred risk policy for a minimum amount of $5,000. Such a policy can be issued at a lower premium rate because the relative acquisition and tax expenses are lower than on a $1,000.

Minimum amounts are often established for installment payments if the payment of installments is requested in semiannual, quarterly, or monthly parts of the annual installments provided for by the terms of any of the settlement options of life insurance policies and such semiannual, quarterly, or monthly payments would necessitate payments of less than ten dollars. In such cases the life insurance company generally reserves the right to make payments at less frequent intervals. If under any option elected the annual installments would amount to less than ten dollars, the company ordinarily reserves the right to pay the amount due in a single sum to the payee then entitled to receive installments under the terms of the election. *See* Optional modes of settlement.

Minimum reserve. *See* Valuation standards.

Minors. *See* Juvenile insurance.

Misrepresentation. The laws of various states prohibit the making of any misleading representation or comparison of companies or policies. No person is allowed to make, issue, or circulate any estimate, illustration, circular, or verbal or written statement of any sort for the purpose of inducing or tending to induce a policyholder in any company to lapse, forfeit, change, or surrender his insurance. Prohibited, likewise, is the issuance of any verbal or written statement of any kind which contains any false or malicious statement calculated to injure any company doing business.

Misrepresentation and concealment are matters of importance in connection with the application for life insurance. *See* Representation.

Missing insured. *See* Absence; Disappearance of insured.

Misstatement of age. Statements regarding the age of the insured or applicant in life insurance policies are regarded as material to the risk, and false statements, unless waived by the company, will void the contract. However, in some cases, it has been asserted that a slight difference would not void the policy; and in some cases the effect of this statement is dependent upon the knowledge of the applicant.

The general effect of the misstatement of age may be qualified by statutes, or provisions of contract. For example, in Iowa, a statute specifies that, in case of a misstatement of age, the insurer may collect the difference in premium. Such a provision is now a standard provision of nearly all life insurance policies, is required by law, and it is the general practice to make adjustments in event of a misstatement of age. The incontestable clause does not govern this provision of the policy. A typical policy rule that governs if age has been misstated reads as follows:

> If the age of the insured has been misstated the amount payable hereunder shall be such an amount as the premium paid would have purchased at the company's published rate now in use for the correct age. Age will be admitted on proof satisfactory to the company.

See Proof of age.

Mixed company. A mixed company is one that has some capital stock provided by a few stockholders, but whose policyholders become members of the corporation just as they do in a mutual company. When the policyholders of an insurance company share with the stockholders in the gains or savings (profits), the organization is called a *mixed company*. Mutual life companies are sometimes operated under this type of organization. Companies that issue both participating and nonpar-

ticipating insurance are sometimes called mixed companies. *See* Mutual company; Stock company.

Mixed mortality table. *See* Aggregate mortality table.

Mobile Bill. This is one of several so-called "Bills" that have been issued with the object of improving the financial status of the fraternals. The National Fraternal Congress published its mortality table in 1898, which was a step toward both a better financial and underwriting procedure. In 1892, some six years before, the National Fraternal Congress approved the "Uniform Bill," which with amendments in 1892, recognized the fundamental idea of the reserve system. The "Force Bill," which was adopted by the Congress in 1900, required all fraternals organized after that date to adopt adequate rates in accordance with the National Fraternal Congress Table. The "Mobile Bill," enacted as a law in many states, and adopted by the Congress in 1910, required adequate "level-premium" rates for all new business. The New York Conference Bill, adopted in 1912, made further steps toward the solvency of fraternals by requiring minimum rates and reserves on the basis of the Congress Table.

Mode of settlement. *See* Optional modes of settlement.

Modified life policy. Modified life policies are life insurance policies that combine the features of term insurance and policies offering more permanent protection. Under a modified life policy, the premiums for the first few years are less than those for a whole life policy, but just a trifle higher than those charged for the usual term policy, and the coverage, of course, runs for the life of the individual. At the end of the period of low payment premiums, a higher premium payment is required for the remainder of the policy period, and the policy is sometimes called an *increasing premium* contract. This higher premium payment is somewhat greater than the cost of a whole life policy at the original age, though cheaper than the cost of a whole life policy at the attained age. To be sound from an actuarial standpoint, this redistribution of the premium payment must be such as to be the mathematical equivalent of the premium for the whole life policy. Modified life policies have cash surrender and other nonforfeiture values.

Modified preliminary term plan. An unrestricted use of the full preliminary term plan of calculating premium reserves is not permitted in most of the states. The extra amount made available for the first year's expense under the full preliminary term plan is limited or modified. Probably the best known modifications of the full preliminary term plan are in the states of Ohio and Illinois, respectively, and closely related laws have been passed in a number of states.

Under the Ohio Standard, the principle of the full preliminary term plan is adopted so far as ordinary life policies are concerned. Hence, under an ordinary life policy, no reserve is required at the end of the first year and expenses are the same as under the full preliminary term plan. In the case, however, of other types of policies, generally speaking, the amount that it is permissible to spend is less than under the full preliminary term plan and, likewise, a reserve is required at the end of the first year, though this reserve is lower in amount than the sum required under the net level premium plan. Without adequate capital and surplus, new companies are apt to find it difficult to organize and compete with the older companies, when

operation must be in accordance with the Ohio Standard.

The Illinois Standard modification plan, though similar in many respects to the Ohio Standard, nevertheless has certain important differences. In the first place, the reserve requirement and expense limitation for the first year is based on a 20-payment life policy and not on the ordinary life policy as under the Ohio Standard. Since the net premium for a 20-payment life policy is greater than the net premium for an ordinary life policy, the additional amount that may be used for expenses during the first year is higher under the Illinois Standard than under the Ohio Standard. The Illinois modification plan is, therefore, more liberal. Under both the Ohio plan and the Illinois plan, the money taken from the net premium for expenses in the first year must be paid back at some time, if the reserve fund is to be ultimately sound. What is really being done under the full preliminary term plan or under the systems of modification is to reallocate the gross premium. In fact, the differences between the plans are simply differences in methods of arriving at the same results.

At the end of the premium-paying period, the full net level premium must be provided. All of these methods finally accomplish this purpose, if carefully and reasonably carried out. All of these systems will be replaced by the new standard valuation law. *See* Full preliminary term plan; Select and ultimate method; Valuation standards.

Monetary value of life. *See* Capitalization of life value; Maximum and minimum amounts.

Monthly income policy. *See* Income policy.

Monthly premium insurance. Ordinary life insurance companies usually permit the payment of premiums on a monthly basis when the sum is ten dollars or more. Industrial companies, on the other hand, issue policies where the amount of premium is less than ten dollars on the debit plan. Since the cost of collection is less than on the weekly premium basis, the monthly premium insurance costs less as a type of industrial life insurance.

Monuments and tombstones. The laws of many states provide that fraternals, in addition to payment of death benefits, may provide for monuments or tombstones to the memory of their deceased members.

Moral hazard. This concept refers to all the facts, conditions, habits, social relationships, and personal history of the applicant or insured. These underwriting factors tend to indicate whether or not the risk is the type of person that will make a desirable policyholder.

Moratorium on mortgages. During the depression of the 1930's many states enacted moratoria laws, which had for their purpose the temporary postponement of foreclosures on mortgaged property. Insurance companies were affected because of their investments in city and farm mortgages.

More exact premium. *See* Exact premium.

More hazardous occupation. Occupation is a factor in the acceptance of a risk. But if an insured becomes engaged in a more hazardous occupation than the one listed on the application after his policy is in force and he has paid the first premium, the company cannot increase the premium. However, if the policy lapses and the risk applies for reinstatement, the company can increase the premium.

Mortality charge. Mortality charges are the provisions at the beginning of the policy year for the mortality

on account of such policy year, according to the table of mortality adopted and the rate of interest assumed.

Mortality saving. The net premium provides for the mortality as shown in the table of mortality. If the actual mortality is less than that provided for because of the benefits of selection or otherwise, there is a saving from mortality. It is one of the sources of the surplus.

Mortality table. A mortality table has been defined as "the instrument by means of which are measured the probabilities of life and death." Mortality tables are records of past experiences, and form the basis of the theory and practice of life insurance. Mortality tables are simply an explanation of past human experience in relation to duration of life. In regard to the use of such tables, it was said in *Merchants, etc., Trans. Co. v. Borland,* 53 N. J. 282, 286, that: "By this means, the probable number of years any man or woman of a given age and ordinary health will live may be arrived at with reasonable certainty." The use of mortality tables involves the *expectation* that the experience of the future will be the same as that of the past. Mortality tables show the number of individuals who are alive at each age out of a given number and also the number who die during each year of age.

The first tables were made from population statistics, then, later on, from the experience of life insurance companies. Until about one hundred years ago all mortality tables were constructed from population statistics. Actuarial calculations for life insurance were necessarily based on such tables until a soundly constructed table from life insurance company experience was published in 1834 based upon the experience of the Equitable Life of Great Britain during 1762 to 1829.

The first mortality table used widely in life insurance was the Northampton table, formed from a record of deaths and baptisms in Northampton, England, and published in 1788. Faulty assumptions were used in its preparation, which resulted in excessive death rates; at ages under 55 "Northampton" death rates are about double those of the American Experience Table. Strange to say, the Northampton table is still used in a few of the courts in the United States for determining the values of life estates. A mortality table such as the American Mortality Table consists of groups of lives at each age which have been under observation and of which the proportion of each group dying during a period of one year has been recorded. This proportion dying during one year out of a group of the same age, such as age 15, for example, is known as the *rate of mortality* at that age. The fundamental figure in any mortality at each age is merely the rate of mortality because, when this rate of mortality at each age is known, it is possible to arrive at the hypothetical figure of the number living and the number dying at each age out of the original group of one hundred thousand.

The Report of the Committee to study the need for a new mortality table had this to say about mortality tables:

> The mortality table is the instrument by means of which are measured the probabilities of death and survival. Inasmuch as the business of life insurance involves the receipt and disbursement of funds upon specified contingencies of death and survival, it is evident that the mortality table basically affects practically all life insurance calculations.
>
> The reasons for the persistence of the

American Experience table in the process of American Life Insurance are many and complex. . . . . the failure of the business to adopt and use a more modern table is not due to any lack of understanding on the part of the actuaries, medical officers, and other officials of the life insurance companies, of the trends of mortality in all its phases. There is ample evidence in the Transactions of the Actuarial Society of America, the Record of the American Institute of Actuaries and other publications devoted to life company affairs to show that the study of mortality from every angle is constant, vigorous and thorough. . . . . Altogether mortality studies claim a large fraction of the space in the Transactions of the American Actuarial Society and the Record of the American Institute of Actuaries.

The choice of the mortality table to be used by a life company in connection with any particular phase of its operations ordinarily lies with the actuary of the company. In the United States, however, the laws of most states remove part of this responsibility from the actuary by dictating the choice of the mortality table to be used for the determination of contract liabilities and for certain other purposes.

The states in setting up specific mortality tables as legal valuation standards are apparently desirous of attaining certain objectives: (1) the fixing of uniform bases for the valuation of contract liabilities; (2) the establishment of requirements which will result in the charging of premiums reasonably commensurate with the risks assumed: (3) the definition of reasonable non-forfeiture benefits on default in payment of premiums by the policyholder or on surrender of the contract, and (4) the designation of a basis which will (a) facilitate the appraisal of the progress of companies from year to year, (b) tend to the maintenance of equity among the several groups of policyholders and the stockholders, if any, and (c) tend to maintain equilibrium between the operating requirements of the business and the amounts available for distribution to policyholders and stockholders.

From the point of view of the insurance company, the mortality tables serves the following purposes: (1) calculation of premium rates; (2) calculation of nonforfeiture benefits on lapse or surrender; (3) valuation of contract liabilities; (4) calculation of dividends to holders of participating contracts; (5) standard of measurement in investigations of mortality experience, and, closely related thereto; (6) the designation of standards in connection with underwriting of new business. Variations in any of these factors directly or indirectly affect the cost of insurance to policyholders, or the security of their contracts, or both. Items (1), (2), and (5) affect the individual policyholder directly, items (3) and (4) indirectly, item (6) though fundamentally important from the standpoint of management is outside the scope of this study.

For detailed reports on mortality tables see the "Report of the Committee to Study the Need for a New Mortality Table," and the publications of the Actuarial Society of America and the American Institute of Actuaries. The following tabulation gives the mortality rates per 1,000 for selected ages for some of the more widely used tables:

MORTALITY RATES PER 1,000

Age	Commissioners Table (ult.)	American Men (ult.)	American Experience	National Fraternal	Standard Ind. 1941
25	2.88	4.31	8.06	5.20	4.73
35	4.59	4.78	8.95	6.15	6.58
45	8.61	7.94	11.16	8.87	12.32
55	17.98	17 47	18.57	15.71	24.75
65	39.64	40.66	40.13	34.39	53.33
75	88.64	91.94	94.37	85.48	106.26
85	194.13	197.07	235.55	225.08	221.79
95	396.21	387.76	1000.00	602.74	441.95

Mortgage redemption policy. This contract is designed to furnish protection to an insured who is making periodic repayments on the principal of a mortgage or other fixed indebtedness. The contract is written for decreasing amounts of insurance, the

amount in force in any year being sufficient to repay the balance of the indebtedness. The minimum amount of reduction in any year must in many companies be at least $25 per $1,000 initial amount of insurance.

The policy may be made payable to a named beneficiary, who may use the proceeds to pay off the remaining indebtedness; or it may be made payable either to a named beneficiary or the insured's estate and then assigned to the Mortgage Holder or other creditor "in so far as their interest may appear."

The premiums under this policy are figured on a one-year term basis —the actual premium payable in any case thus depending on the amount of insurance in force in any particular year and the insured's attained age.

This policy is subject to the following restrictions in many companies:

(1) It will not be issued for a period extending more than 20 years.

(2) It will not be issued to an insured above age 50.

(3) The renewal period will not be extended beyond the insured's attained age 59.

(4) The first premium must be paid on the annual basis.

(5) The minimum initial amount for which this contract is issued is $3,000 and the maximum is $25,000.

Mortuary dividends. These are dividends that are paid, usually in addition to the regular dividend, at the death of the insured. Sometimes these dividends are known as extra dividends or *special-settlement* dividends. Often such dividends necessitate smaller regular dividends to the policyholder. *See* Tontine; Semitontine.

Mortuary fund. Funds secured by assessment companies for the settlement of death claims by mutual benefits are called *mortuary funds* or *death benefit funds.* These funds are in the nature of trust funds and cannot, generally, be used for any other purpose.

Most probable after lifetime. According to this plan, the period through which a person of a given age has a reasonable or *average* chance of surviving is to be found as follows: (1) find by inspection the age at which the largest number of deaths occur; (2) subtract from that age the age of the prospective insured. The idea is unsound. *See* Probable lifetime; Expectation of life.

Most probable lifetime. The most probable lifetime is the difference between the present age of the individual and the age at which the mortality table shows the largest number of deaths occur. In the American Experience Table, the largest number of deaths occur between ages 73 and 75. Hence, the most probable lifetime at age 35 is between 38 and 39 years. *See* Probable lifetime; Expectation of life.

Multiple indemnity. *See* Double indemnity; Accidental death benefit.

Mutual benefit association. Mutual benefit associations may be divided into: (1) those essentially co-operative or mutual benefit associations; (2) those of a secret fraternal nature, conducted on a lodge system; (3) those not operated on the lodge system but affilated with such a secret order and accepting as members only members of some such fraternal order.

The insurance laws of Wisconsin state that a mutual benefit society includes all fraternal and beneficiary corporations, societies, orders, or associations for the relief of members on the mutual or assessment plan.

In such associations, generally, the applicant must submit to a medical

examination and fill out a regular application similar to that for ordinary life insurance. The assessment or premium is varied according to age. Generally, only relatives may be named as beneficiaries.

The death payments may be made according to one of several plans: (1) payment of certain sum on death of member; (2) payment of certain sum to be raised by assessment on surviving members; (3) payment on death of member of sum of dollars equivalent to number of members.

In many instances membership in mutual benefit associations has been construed as a contract of insurance. In the leading case on this matter (*Commonwealth v. Wetherbee,* 105 Mass. 149), Justice Gray said:

> This is not the less a contract of insurance because the amount to be paid is not a gross sum, but a sum graduated by the number of members holding similar contracts. Nor because a portion of the premium is paid at uncertain periods, nor because in case of nonpayment of an assessment, the contract provides no means of enforcing payment, but merely declares the contract to be at an end. The contract is an insurance contract, though the object of the organization is benevolent, and not speculative.

In another case (*Railway Passenger and Freight Conductors' Mutual Aid and Benefit Association v. Robinson,* 147 Ill. 138), the court held that the contract between the benefit association and the member indicated by the constitution and bylaws and the membership certificate is a policy of insurance, even though there was no promise of indemnity on the face of the certificate. In the case of *State v. Merchants Exchange Mut. Benevolent Society,* 72 Mo. 146, in which the contention was made that certificates of membership in mutual benefit associations are not contracts of insurance, as these societies are benevolent associations, the court held such a contract to be one of insurance, holding that all insurance was first based on the principle of benevolence. *See* Fraternal insurance.

Mutual company. A mutual company does not generally have any capital stock. The policyholders or members make up the company instead of the stockholders of the ordinary stock company. The capital of mutual companies which is obtained from members is made up usually of assessable premium notes, or cash, or both. From this common fund the losses are paid.

Anyone taking out insurance in a mutual company becomes a member of the association. On the contrary, the policyholders of stock companies are not members of the corporation and do not have to carry any insurance. In other words, mutual companies only insure the life and property of their members. In a sense, therefore, the members of the mutual companies comprise the insured and the insurers. In mutual companies, in case the premiums amount to more than enough to pay the losses, the members are entitled to a pro rata division, and such sums returned or paid to policyholders are often called *dividends.*

Although, in fact, every co-operative insurance organization is a mutual, the methods of such companies or societies may differ. Fraternal insurance is operated on the mutual principle. However, in many such societies the premium rates or assessments are unscientific; the principle of mutuality is violated as the burden of the insurance is not equitably distributed, the younger members bearing more than their share.

A person taking insurance in a mutual company or taking an assignment of a policy is bound by the charter, bylaws, and rules of the com-

pany. It has been held that the charter, bylaws, and rules become a part of the contract, if they are incorporated in the contract by reference or otherwise. In some states, it is specified by a statute that a copy of the bylaws is to be attached to the policy. In Kansas, for example, policies written by mutual fire insurance companies must have attached a printed copy of the bylaws. These bylaws must be considered in an interpretation of such contracts. The general rule is that, unless otherwise specified, the company cannot bind a member by passing a bylaw impairing his contract.

There are many different kinds of mutual companies. The following is a brief summary and definition of some of the more important various types of mutual organizations engaged in the insurance business:

1. *Deposit premium mutuals.*—These are companies charging a comparatively high initial or deposit premium, returning the excess amount, after meeting losses and expenses, to the policyholder. If necessary to meet losses and/or expenses in excess of income, a policy in such a company may be assessed, although the large advance deposit premium should make such action unnecessary.

2. *Ordinary premium mutuals.*—These companies charge an initial cash premium similar to that of stock companies and return dividends to the policyholder, provided there is a fund for such distribution after all losses and expenses have been met. Quite frequently, such mutuals credit this dividend on the renewal of a policyholder. Assessments can be made on the policyholders of these mutuals, if necessary.

3. *Nonassessable mutuals.*—Such companies operate virtually on the same basis as stock companies. Policyholders cannot be assessed in these companies.

4. *Senior mutuals.*—These are mutuals engaged in the business of insuring a very select class of sprinkler leakage protected risks. Deposit premiums are paid, dividends are issued, and policyholders are liable to assessment in such companies.

5. *Junior mutuals.*—Such companies are quite like the senior mutuals, but accept a lower standard of risks.

6. *Factory mutuals.*—These are deposit premium and assessment mutuals specializing on factory risks and showing a definite interest in fire prevention activities.

7. *Local assessment mutuals.*—Such companies are usually deposit and assessable mutuals operating on a very small geographical scale. Examples of such mutuals are the local *farm mutuals,* the local *grain mutuals,* and the local *town mutuals.*

Mutual mistake. Where there is a mutual mistake about an insurance policy, the contract may be reformed in equity proceedings so as to conform to the real agreement between the parties. If there has been fraud in mutual mistake, either party may obtain a recession of the contract in a proceeding in equity. *See* Representation.

Mutual protective associations. These are associations that operate on the assessment system. The members reciprocally engage to indemnify each other against losses. Such associations may issue what are called *closed contracts of insurance* providing for stipulated premiums—these policies are not subject to assessment if the association maintains the reserves required by law. Many states have required these associations to operate on a minimum reserve basis. Generally these associations are not subject to the same laws that govern the supervision and regulation of ordinary companies.

N

National Fraternal Congress Table. The National Fraternal Congress Table was published in 1899 and is the experience of fraternal insurance societies. The table begins with 100,000 lives at age 20 and places the

National Fraternal Congress Table of Mortality

Age	Number of Living	Number of Dying	Yearly Probability of Dying	Yearly Insurance Cost Per $1,000	Yearly Cost discounted at 4 per cent	Expectation of Life	Average Duration of Life
20	100000	500	.0050000	$ 5.000	$ 4.808	45.6	49.7
21	99500	501	.0050352	5.035	4.841	44.9	48.8
22	98999	502	.0050708	5.071	4.876	44.1	47.9
23	98497	503	.0051068	5.107	4.911	43.3	47.0
24	97994	505	.0051534	5.154	4.956	42.5	46.1
25	97489	507	.0050206	5.201	5.001	41.8	45.2
26	96982	510	.0052587	5.259	5.057	41.0	44.3
27	96472	513	.0053176	5.318	5.113	40.2	43.4
28	95959	517	.0053877	5.388	5.181	39.4	42.5
29	95442	522	.0054693	5.469	5.259	38.6	41.6
30	94920	527	.0055520	5.552	5.338	37.8	40.7
31	94393	533	.0056466	5.647	5.430	37.0	39.8
32	93860	540	.0057532	5.753	5.532	36.2	38.9
33	93320	548	.0058723	5.872	5.646	35.4	38.0
34	92772	557	.0060040	6.004	5.773	34.6	37.1
35	92215	567	.0061487	6.149	5.912	33.9	36.2
36	91648	578	.0063067	6.307	6.064	33.1	35.3
37	91070	591	.0064895	6.490	6.249	32.3	34.4
38	90479	606	.0066977	6.698	6.410	31.5	33.5
39	89873	622	.0069209	6.920	6.655	30.7	32.6
40	89251	640	.0071708	7.171	6.895	29.9	31.7
41	88611	660	.0074483	7.448	7.162	29.1	30.9
42	87951	683	.0077657	7.766	7.467	28.3	30.0
43	87268	708	.0081129	8.113	7.801	27.5	29.1
44	86560	734	.0084797	8.480	8.154	26.8	28.2
45	85826	761	.0088668	8.867	8.526	26.0	27.4
46	85065	790	.0092870	9.287	8.930	25.2	26.5
47	84275	822	.0097538	9.754	9.379	24.4	25.6
48	83453	857	.0102693	10.269	9.874	23.7	24.8
49	82596	894	.0108238	10.824	10.408	22.9	23.9
50	81702	935	.0114440	11.444	11.004	22.2	23.1
51	80767	981	.0121460	12.146	11.679	21.4	22.2
52	79786	1029	.0128970	12.897	12.400	20.7	21.4
53	78757	1083	.0137512	13.751	13.222	19.9	20.6
54	77674	1140	.0146767	14.677	14.112	19.2	19.8
55	76534	1202	.0157054	15.705	15.101	18.5	19.0
56	75332	1270	.0168587	16.859	16.211	17.8	18.2
57	74062	1342	.0181200	18.120	17.423	17.1	17.4
58	72720	1418	.0194994	19.499	18.749	16.4	16.6
59	71302	1501	.0210513	21.051	20.241	15.7	15.8
60	69801	1588	.0227504	22.750	21.875	15.0	15.1
61	68213	1681	.0246434	24.643	23.695	14.4	14.4
62	66532	1778	.0267240	26.724	25.696	13.7	13.6
63	64754	1880	.0290330	29.033	27.916	13.1	12.9
64	62874	1985	.0315711	31.571	30.357	12.4	12.2
65	60889	2094	.0343904	34.390	33.067	11.8	11.6
66	58795	2206	.0375202	37.520	36.077	11.2	10.9
67	56589	2318	.0409620	40.962	39.387	10.7	10.3
68	54271	2430	.0447753	44.775	43.053	10.1	9.7
69	51841	2539	.0489767	48.977	47.093	9.5	9.1
70	49302	2645	.0536489	53.649	51.586	9.0	8.5
71	46657	2744	.0588122	58.812	56.550	8.5	7.9
72	43913	2832	.0644912	64.491	62.011	8.0	7.4
73	41081	2909	.0708113	70.811	68.087	7.5	6.9
74	38172	2969	.0777795	77.789	74.788	7.0	6.4
75	35203	3009	.0854757	85.476	82.198	6.6	6.0
76	32194	3026	.0939927	93.993	90.397	6.2	5.5
77	29168	3016	.1034010	103.401	99.424	5.7	5.1
78	26152	2977	.1138345	113.835	109.457	5.3	4.7
79	23175	2905	.1253506	125.351	120.520	5.0	4.3
80	20270	2799	.1380858	138.086	132.775	4.6	4.0
81	17471	2659	.1521951	152.195	146.341	4.3	3.6
82	14812	2485	.1677694	167.769	161.316	3.9	3.3
83	12327	2280	.1849598	184.960	177.846	3.6	3.0
84	10047	2050	.2040410	204.041	196.193	3.3	2.8
85	7997	1800	.2250844	225.084	216.427	3.0	2.5
86	6197	1539	.2483460	248.346	238.794	2.8	2.3
87	4658	1277	.2741520	274.152	263.608	2.5	2.0
88	3381	1023	.3025732	302.573	290.935	2.3	1.8
89	2358	788	.3341815	334.182	321.329	2.1	1.7
90	1570	579	.3687898	368.790	354.606	1.9	1.5
91	991	404	.4076690	407.669	391.989	1.7	1.4
92	587	264	.4497445	449.745	432.447	1.5	1.2
93	323	161	.4984520	498.452	479.281	1.4	1.0
94	162	89	.5493827	549.383	528.253	1.2	.9
95	73	44	.6027397	602.740	579.557	1.1	.8
96	29	19	.6551724	655.172	629.973	1.0	.8
97	10	7	.7000000	700.000	673.077	.8	.7
98	3	3	1.0000000	1000.000	961.538	.5	.5

limit of life at 98 years. The National Fraternal Congress Mortality Table is shown on page 79.

National Service Life Insurance. This insurance was issued originally on the five-year level premium term plan to persons engaged in the various armed services. Congress has passed a law that automatically extends all five-year level premium term policies, issued on or before December 31, 1945, and not converted to permanent policies before that date, for an additional three years without any increase in the premiums actually chargeable for such three-year extension.

The level premium term insurance must be converted before the end of the extension period. The conversion may be made into the ordinary life policy, the 20-payment life policy, or the 30-payment life policy. Some of the special features of government life insurance for the service man may be summarized as follows:

1. Waiver of premium in event of total and permanent disability is given without any additional charge and is liberally defined.
2. All expenses of administration are paid by the government.
3. All excess costs due to military service and extra costs because of disability are paid by Congress.
4. The insurance is issued in multiples of $500 with a minimum of $1,000 and a maximum of $10,000.
5. An unrestricted choice of one or more beneficiaries is permitted.
6. A lump sum settlement or a choice of 3 monthly installment options is made under this insurance.
7. The proceeds cannot be assigned, are exempt from taxation, and free from the claims of creditors.
8. The insurance is on a participating basis.
9. Premium rates are relatively low.
10. Cash, loan values, and paid-up and extended insurance benefits are liberal.
11. The amount of insurance payable under the optional settlement provisions is quite liberal, especially to female beneficiaries.
12. There are no restrictions as to residence, travel, occupation, or military or naval service.
13. The number of types of policies into which this conversion can be made is somewhat limited.

The National Association of Life Underwriters passed the following resolution on National Service Life Insurance:

WHEREAS: National Service Life Insurance has been of great benefit to members of our armed forces and their families and in conjunction with the life insurance already owned by them, builds a base of insurance protection and a morale of which America can be proud; and

WHEREAS: In World War II, as in World War I, the National Association of Life Underwriters, through its local associations, assisted the War and Navy Departments in promoting the procurement of National Service Life Insurance by the armed forces; and

WHEREAS: The members of the National Association of Life Underwriters have constantly endeavored to assist service men and women with their National Service Life Insurance; and

By Resolution the Association has urged all members of our armed forces to take the full amount of National Service Life Insurance available;

NOW, THEREFORE, BE IT RESOLVED: That all life underwriters should make their services available to those discharged from the armed forces and should encourage them to continue their National Service Life Insurance in force.

For further information on National Service Life Insurance see publications of the Veterans Administration.

Natural premium. Under the natural premium plan, the premiums are collected at the beginning of each year and just enough is collected to meet the death claims of that year. Under this scheme, the premiums will be increased each year as the policyholder gets older, because the natural premium is a yearly premium. *Natural premium* may be defined as the individual share of an amount calculated from a large group of persons at a given age, which, together with interest at an assumed rate, will provide exactly for the payment of the total death claims occurring during the ensuing year, and in accordance with the mortality table selected.

For example, if you want to find out what premium is necessary in order to insure a life, say age 60, for one thousand dollars for a period of one year, it is necessary to refer to the mortality table (American Table of Mortality), where you will see that, out of 57,917 lives at age 60, 1,546 will die during the next year. If one thousand dollars is to be paid to each of the beneficiaries of the number dying during this year, the total payment that must be made for claims will be $1,546,000. This, then, is the sum of mortality, which, making proper allowances for interest, must be collected in premiums at the beginning of the year. Since 57,917 persons of age 60 paid premiums, we simply divide the total payment required among the number of this group, which gives, making proper allowances for interest, the sum of $25.92 as the individual premium to be paid by each member of the group. This, then, is the amount of mortality payable by the person at age 60 who wants life insurance protection for one thousand dollars for one year.

Premiums of this kind are called *natural* or *one-year term premiums,* because they are just fitted to provide for insurance for one year and leave nothing whatever to furnish protection for the following years. Under such premiums, no reserve is accumulated and, if a person survives the year and wishes further insurance protection for the next year, he must pay a higher premium because he is in exactly the same position as an individual insuring for the first time at age 61. *See* Level premium; Net natural premium.

Naval service. *See* War clauses; National Service Life Insurance.

Net amount at risk. *See* Amount at risk.

Net assets. *Net assets* means the property and funds of an insurance company available for the payment of its obligations, including uncollected premiums not more than, say, three months past due on policies actually in force, and including, in the case of a mutual company, its premiums, promissory notes, and contingent liability of its policyholders, after deducting from such funds all unpaid losses and claims, and all other debts and liabilities except capital. *See* Assets and liabilities.

Net cost. In participating insurance, the gross premium less the dividend to the policyholder is the net or actual cost. The net outlay to policyholders for participating insurance, therefore, depends on the dividends paid.

Net cost may be figured at the termination of a policy. Such a calculation is usually made by adding up total premiums paid, total dividends received, and cash value available at the time of termination. The total of dividends and cash value is substracted from the total premium payments to obtain the net cost. For example, suppose at the end of ten years the insured has paid $201.40 in premiums, and has received $22.81 in

dividends. The net payment would be $201.40 less $22.81 or $178.59. If the policy had a cash value of $98.94 this would leave the total net cost at the time of termination of $178.59 less $98.94, or $79.65, or a yearly average net cost of $7.97 for the ten years of protection. For details on net costs of leading companies see the Flitcraft Compend or the Little Gem of the National Underwriter Company.

Net increase. This term may refer to the increase of insurance in force making allowance for terminations and new business placed. If the volume of new business exceeds the volume of terminations, a net increase in business may be said to have taken place.

In industrial life insurance a part of the compensation paid to the agent has been based on the "net increase" in the debit. If the amount of premium issued and reinstated exceeded that terminated for causes other than death or maturity, a "net increase" in the debit occurred.

Net level premium. *See* Level premium.

Net level premium reserve system. *See* Reserves.

Net natural premium. The net natural premium, sometimes called the *net premium* or the *mortality premium,* is the sum of money which each policyholder must pay, at the beginning of the year, to meet exactly the payments for insurance from one premium period to another. Annual premiums paid in this manner are just enough to pay for the current year's protection. An insurance policy issued on this basis is known as a one-year term policy or a yearly renewal term policy.

A calculation of the net natural premium is a relatively simple mathematical problem. Certain assumptions are usually made in ascertaining this premium, such as: (1) insured pays his premium at beginning of year; (2) a fixed rate of interest is to be earned; (3) death claims are paid at end of year; (4) mortality is in accordance with a certain table used. Now, upon looking at the American Experience Table of Mortality, it will be found that the number of people surviving at age 35, for example, is 81,822, and, by the time age 36 is reached, 732 of these persons will have died. Hence, if the beneficiary of each of the 732 persons dying is to receive $1,000, it will be necessary to collect from the group insured 732 × $1,000, or $732,000. If each insured living at the beginning of the 36th year contributes his proper share of the death losses, the amount will be $732,000 divided by 81,822 or $8.94. However, if the rate of interest assumed is three and one-half per cent, the sum of $8.94 will be reduced by 31 cents, when there will be left $8.63, the net natural premium for each of the 81,822 policyholders living at age 35.

It is a well-known fact that the probability of death increases as the age of the policyholder advances. This is the basis for one of the fundamental objections to the net natural premium method. The premium on this plan becomes too burdensome for the older policyholders. To eliminate this disadvantage, the old line companies have established the level premium plan. The following table shows how the cost of protection, that is, the individual share of the death losses, increases under the net natural premium plan.

INCREASE IN NET NATURAL PREMIUMS

Age	*3½ Per Cent*	*Age*	*3½ Per Cent*	*Age*	*3½ Per Cent*
25	7.79	57	20.61	77	107.31
29	8.06	50	23.88	80	139.58
35	8.64	61	27.90	82	168.40
38	9.09	64	35.63	84	204.21
43	10.46	66	42 23	88	334.97
46	11.17	68	50.24	90	439.17
48	12.09	70	59.90	91	514.46
50	13.31	72	71.24	92	612.81
53	15.78	73	77.47	93	709.35
55	17.94	75	91.18	95	966.18

See Natural premium; Level premium.

Net premium. The net premium is made up from mathematical calculations on an assumed *rate of interest* and an assumed *rate of mortality.* The net premium is just the sum necessary to pay policy claims for death losses, and set up reserves, for it omits items for other expenses or emergencies. The "loading," which is to provide for anticipated expenses and unforeseen contingencies, when added to the net premium makes the "gross premium." *See* Net natural premium; Net single premium; Level premium.

Net single premium. A net single premium is the payment in one lump sum of a premium that is large enough to cover the entire cost of a policy of insurance. In contrast to the net natural premium, the net single premium pays for a policy that runs for more than one year, usually five or more years, at least.

Computation of the net single premium is not a difficult task. In undertaking the work, it is necessary to bear in mind certain assumptions, such as: (1) age of policyholders; (2) length of time the insurance is to run; (3) mortality table used; (4) rate of interest. In calculating the net single premium on a five-year policy, the steps will be as follows: In the American Table of Mortality it will be found that at age 35 there are 81,822 alive and that 732 will die before they reach age 36. The facts for the next four years are: out of 81,090, 737 will die before age 37; 742 will die before age 38; 749 will die before age 39; and 756 will die before age 40.

Assuming that in event of death the beneficiary is to receive $1,000, the amounts that an insurance company will have to pay can be stated as follows:

Year	*Age*		*Amount*
1	35	(732 × $1000) or	$732,000
2	36	(737 × $1000) or	737,000
3	37	(742 × $1000) or	742,000
4	38	(749 × $1000) or	749,000
5	39	(756 × $1000) or	756,000

Over this five-year period, the total death claims will amount to $3,716,000. However, the company will earn interest on this sum at the rate of three and one-half per cent. Hence, the 81,822 individuals alive at age 35 will pay the sum of $3,716,000 minus the interest earned. It will only be necessary, therefore, to find out what sum of money collected at age 35 and paying three and one-half per cent interest will be enough to meet the death claims as they fall due at the end of each of the five years. The rule for finding the net single premium is simply to find the present value of all future death claims that come due and divide the result by the number living.

Continuing with the example in hand, it will be found from a compound discount table that the whole matter may be summed up as follows:

First year..$732,000..Death claims.. (732,000 × .9662—Present value of $1 payable at end of one year.
$707,258.40 Present value of $732,000 payable at end of first year.
Second year. $737,000. Death claims.. (737,000 × .9335—Present value of $1 payable at end of two years.
$687,989.50 Present value of $737,000 payable at end of second year.
Third year..$742,000—Death claims.. (742,000 × .9019—Present value of $1 payable at end of three years.
$669,209.80 Present value of $742,000 payable at end of third year.
Fourth year..$749,000..Death claims.. (749,000 × .8714—Present value of $1 payable at end of four years.
$652,678.60 Present value of $749,000 payable at end of fourth year.

Fifth year..$756,000..Death claims.. (756,000 × .8420—Present value of $1 payable at end of five years.
$636,552.00 Present value of $756,000 payable at end of fifth year.
The total present value of death claims which will fall due during the insurance term of five years $3,353,688.30

The net single premium at age 35 for a five-year term policy is $3,353,688.30 divided by 81,822, or $40.99. The same method may be followed in calculating the premium for a whole life policy. *See* Level premium; Net natural premium.

Net value of policy. The courts have construed the *net value* of a policy to mean the reserve or the portion of the annual premiums paid by the assured, which must be set apart according to the American Experience Table of Mortality to meet the obligations of the assurer under the policy. *See* Amount at risk.

New Jersey Standard. Under the old New Jersey Law the full net level premium reserve was required at the end of seven years. Now the New Jersey Law requires that the reserve must equal the full level premium reserve by the end of 20 years if the gross premium charged is more than 150 per cent of the net premium. Otherwise the New Jersey Standard is similar to the Illinois Standard. *See* Illinois Standard; Valuation standards.

Ninety-day clause. *Ninety-day clause* refers to a special clause in the disability provisions of life insurance policies providing that, for a claim to be established, it is only necessary to prove that the disability is total and that it has lasted for 90 days. The introduction of this clause, largely through competition, about 1921, brought about quite radical changes in the scheme of disability benefits in life insurance. This clause has been valuable in helping to solve the perplexing question of the permanency of a disability. The ninety-day clause admits that total disability is permanent if it lasts for ninety days. Under such a provision, it is possible that benefits may be obtained for temporary total injuries as well as for permanent total injuries, for it is possible that a disability may last for 90 days and still not be permanent. Under this clause, a waiver of premiums and an income payment may be obtained for temporary total disability. If the disability is proved to be permanent before the expiration of the 90 days, the benefit may be paid from the beginning of such disability. Such a clause, presuming that disability is permanent after it has lasted for 90 consecutive days, usually reads as follows:

> If, before attaining the age of sixty years, the insured becomes totally disabled by bodily injuries or disease and is thereby prevented from performing any work or conducting any business for remuneration or profit for a period of ninety consecutive days, then such disability shall, during its further continuance be presumed to be permanent. No benefit shall accrue prior to the expiration of said ninety days unless during that period evidence satisfactory to the company is received at the home office while the insured is living that the total disability will be permanent, in which event the benefit will accrue from the beginning of the disability. The company shall have the right to require proof of the continuance of such a disability, during the first two years of such disability, at any time when requested by the company, but such evidence shall not be required oftener than once a year after the expiration of two years from the acceptance of such evidence.

The use of the ninety-day clause tended to broaden the disability coverage granted, for many border risk disablements are included. Because of this fact, the addition of the ninety-day clause to the policy required the payment of an extra premium charge to take care of the additional expenses involved, but company experience showed that the extra charges were inadequate. Since 1932 the leading companies have either discouraged the income disability benefit or have made drastic limitations on the coverage with further rate increases and a waiting period of six months. *See* Selection of risks; Proof of continuance; Standard provisions.

Nominal and actual interest rate. *See* Actual or effective interest rate.

Non-admitted companies. This term describes a company that tries to sell insurance in a state without complying with the laws and the rules and regulations of the state insurance department. People are warned against so-called non-admitted companies for many reasons. Such companies are not under state supervision and may therefore engage in misrepresentation of contracts. They pay no taxes in the state, and if litigation is necessary to collect a claim, it is difficult to reach them.

Nonforfeiture law. The first law of this kind was passed by the Massachusetts Legislature in 1861, although it was later amended. The laws of several states specify that, after the premium for a life insurance policy has been paid for a certain period, generally two or three years, the policy is not to be forfeited for nonpayment of premium. The net reserve value of the policy (less any indebtedness due on account of the policy) is to be used for extending the full amount of insurance for a certain term or for purchasing a limited amount of insurance. Usually, this amount may be applied as a single premium to obtain term insurance for a certain premium in proportion to the amount of this net reserve.

The laws in some states (Colorado, Missouri, California) are applicable to all companies doing business in the state, foreign as well as domestic, whereas the application of some laws are limited to domestic companies. Since these laws of the states are not all the same, perplexing questions often arise as to which law governs. When a contract written by a foreign company is delivered and the premium paid in the state of the insured's residence, the contract being thereby completed, such a contract is generally governed by the laws of that state. In some instances, these laws have been held to be applicable to legal reserve companies and not to mutual benefit associations.

Nonforfeiture options. In times past, it was the usual practice for life insurance policies to provide for an absolute forfeiture of the policy upon failure to pay the premiums. In some early cases, however, the principle was recognized that this was unfair to the insured if the failure to pay the premium was due to some cause beyond his control, such as war, for example. Since the policyholder had paid to the company more than the cost of his insurance for the time it was in force, he would be allowed to recover the equitable value of his insurance coming from the premiums paid. So there has developed what are known as nonforfeiture values, nonforfeiture benefits, or nonforfeiture provisions, all being different names for the same thing but which grow out of the nature of the level premium system.

At the present time, life insurance contracts usually outline the optional rights of the insured on a policy for-

feited by nonpayment of premiums: (1) to have the net reserve, less any indebtedness on the policy, used as a single premium to provide extended term insurance for a certain limited term depending upon the amount of this net reserve; (2) to have the net reserve used as a single premium on a paid-up policy for a certain sum proportionate to this net reserve; (3) on surrendering the contract to obtain the cash surrender value depending upon the number of annual premiums paid; (4) to have the premium due automatically paid by a premium loan; or (5) to have the policy reinstated under certain conditions. A specimen provision relative to nonforfeiture options reads as follows:

> After this policy shall have been in force three full years, the life Beneficiary and Assignee, if any, within thirty-one days after default in payment of any premium or installment thereof, may elect (a) to surrender this policy for its cash value, or (b) to have the insurance continued in force from date of default, without future participation, for the sum insured, including any outstanding dividend additions, less any indebtedness to the company hereon, or (c) to purchase participating paid-up insurance, payable at the same time and on the same conditions as this policy. The cash value shall be the full reserve at the date of default on this policy and on any paid-up dividend additions thereto, and the value of dividend accumulations and any dividends held by the Company to the credit of this policy, less any existing indebtedness to the Company on this policy and less a surrender charge never in excess of two and one-half per centum of the sum insured. The surrender charge, if any, has already been deducted from the cash value shown in the Table of Guarantees. Payment of the cash value may be deferred by the Company for not more than ninety days after the application for the cash surrender value is made. The term for which the insurance will be continued or the amount of the paid-up policy will be such as the cash value will purchase as a net single premium at the attained age of the Insured, according to the American Experience Table of Mortality and interest at the rate of three (3) per centum per annum. If the owner of this policy shall not, within thirty-one days from default, surrender this policy to the Company at its Home Office for its cash value, or for paid-up insurance as provided in options (a) and (c) respectively, the insurance will be continued as provided in option (b).

Usually, two or more full annual premium payments are required to secure paid-up or extended insurance. Paid-up insurance continues for the remainder of the term of the policy. The amount of the paid-up insurance is specified in the "table of values" in the policy. Extended insurance is equal in amount to the face amount of the policy and the term of such protection is specified in the "table of values" in the policy. Paid-up additions increase the amount of extended insurance and any indebtedness decreases the amount of the extended insurance.

Upon the surrender of the policy by the insured, after two or more annual premiums have been paid, the company will pay the cash value of the policy. After the cash settlement, the company is free from any further liability under the policy. The insurance company can defer the payment of the cash value, usually not more than 90 days after an application therefor has been made. The cash value on the due date of an annual premium shall be the reserve on the policy, minus the customary surrender charge.

After two or more full annual premium payments have been made, the insurance company will loan any sum up to the limit secured by the cash value of the policy. No loan, as a rule, will be made on an ex-

tended policy of insurance. Delivery and assignment of the policy to the company must be made in order to obtain a loan, the policy being the sole security for the loan. Premiums on a policy may be paid by a policy loan as well as by a premium loan. Failure to pay the loan or interest will void the policy when the total indebtedness, including accrued interest, equals or exceeds the then cash value of the policy after proper notice has been given to the assured.

Under the premium loan provision, in case of nonpayment of a premium or installment thereof, the payment of the premium is made by charging the unpaid premium as an indebtedness against the policy. The limit to which the insurance company will allow such a charge is the limit secured by the cash value of the policy. Generally, the automatic payment of such a premium by accumulated dividends would take precedence over an application for a premium loan.

In insurance policies, there is a "table of values" showing the cash surrender or loan values, paid-up insurance, and extended insurance. The values guaranteed in such a table are based on the assumption that: (1) premiums are fully paid; (2) no debts to company exist; and (3) there are no outstanding paid-up additions. The cash and loan values stated in the table are the minimum amounts available at the end of the years specified. The following is a specimen table showing the nonforfeiture benefits:

At end of year	Cash or loan	Extended insurance Years	Extended insurance Days	Paid-up life insurance
3	$ 41.00	4	230	$ 92.00
4	67.00	7	208	149.00
5	94.00	10	154	205.00
6	122.00	13	6	260.00
7	150.00	15	101	316.00
8	180.00	17	79	371.00
9	211.00	18	317	426.00
10	242.00	20	104	480.00
11	274.00	21	164	532.00
12	306.00	22	177	585.00
13	340.00	23	155	637.00
14	375.00	24	118	688.00
15	411.00	25	84	740.00
16	448.00	26	77	792.00
17	486.00	27	126	843.00
18	526.00	28	280	895.00
19	567.00	30	320	947.00
20	610.00	Life		1000.00

Nonledger assets. In the annual statement required by the state insurance departments, the following assets make up what are called *nonledger assets:* (1) interest and rents due and accrued; (2) net uncollected and deferred premiums; and (3) any upward adjustment of the book values of bonds and stocks so as to make them correspond with the official or admitted security valuations. *See* Assets and liabilities.

Nonmedical insurance. In most cases, an applicant for life insurance must pass a medical examination before he is qualified to be properly insured. In the early days of life insurance, underwriting medical examinations were not required. In the rural districts, it is sometimes difficult to obtain satisfactory medical examinations; so, in some instances, there has developed in both Canada and the United States some practice of issuing so-called nonmedical life insurance. Usually, the amount written without a medical examination is limited, but experience has shown that under certain restrictions insurance may be safely issued without requiring a medical examination.

The laws of many states require a medical examination. On account of statutory restrictions in Arizona, for example, the amount that may be written on a nonmedical basis cannot be in excess of a set figure.

Some of the objections to the elimination of the medical examination are as follows: (1) increase in dishonesty and fraud on the part of applicants for insurance would result; (2) the character of the risks would in general change for the worse. The application in nonmedical insurance is usually of such a nature as to secure most of the desired information. Generally limitations of the following nature are used in the writing of nonmedical risks: (1) age limits; (2) occupations; (3) races; (4) classes of risks; (5) territory; and (6) plans of insurance. Much group insurance is written on a nonmedical basis. *See* Medical examination.

Nonparticipating insurance. A nonparticipating contract is one with a fixed premium rate guaranteed throughout the term of the policy. There is no offer of dividends or refunds to the policyholder in such an agreement. The essential difference between participating and nonparticipating insurance is that in nonparticipating insurance the profits, if any, which result, go to the stockholders of the company, and the losses, if any, must be borne by the stockholders. Leading nonparticipating companies have used mortality tables of much more recent date than the American Experience Table.

One nonparticipating company describes its contracts in the following way:

> The policies issued by this company are all on the nonparticipating or guaranteed low cost plan. The premiums required by these policy contracts are as low as safety will permit, and are guaranteed to remain at such low figure during the entire premium payment period. The exact premium is stated in the policy contract and is not subject to increase or decrease by the company, hence the insured knows in advance exactly what he will have to pay for his policy each year.

Mutual companies write participating insurance. Some stock companies write both participating and nonparticipating insurance. Net cost comparisons for both participating and nonparticipating insurance are shown in the "Little Gem" of the National Underwriter Company and the Flitcraft Compend.

The usual annuity contract is definitely marked as being "participating" or "nonparticipating." Most annuity contracts, other than retirement annuities and some survivorship annuities, are nonparticipating. In addition to being labeled nonparticipating they may contain this express condition: "This contract does not participate in the surplus of the company." Such nonparticipating annuities do not share in the surplus of the company even though they are issued by life insurance companies writing participating life insurance. The state laws, such as in New York, allow companies writing participating life insurance the right to issue nonparticipating annuities.

It is possible to issue life annuities on a participating basis, but the companies generally consider that the best practice is to issue life annuities on the nonparticipating basis and to charge as low a rate as possible. As the annuitant survives from year to year, the funds in the hands of the insurance company decrease, and this factor alone would naturally cause the dividend to decrease. Another factor that might tend to decrease the size of the dividend would be a very low death rate among annuitants in general.

Northampton and other mortality tables. The compilation by Dr. Price, a Unitarian minister, of the Northampton Table of Mortality was a real step toward a more correct basis for life insurance and also for annuities, although the table showed

excessive mortality. The registered deaths in two parishes in the town of Northampton, England, for the 46 years up to 1780 were used in his second table (known as the Northampton Table), which was published in 1783. It appears that the mortality of these two parishes was higher than the average for other towns. No census enumeration was included, and, of course, death records alone are not a satisfactory basis for the calculation of annuity tables. The Northampton Table was extensively used. It was adopted by the Equitable, and the company had a very profitable experience on its life insurance from this table, for it figured the term of life average low. On annuities, however, the companies and the government had an unfavorable experience from this table.

In addition to the calculation of the Northampton Table, Dr. Price also compiled other mortality tables, including the Chester Tables. These tables were calculated from the records of births and deaths of Chester, England, and the mortality rates for males and females were given separately. The mortality assumption of these tables was comparatively accurate for that time, but they were never used in general practice although Dr. Price recommended the use of this table with its mortality experience lower than that of the Northampton Table.

Not admitted assets. This term is used in connection with the annual financial statement. *Not admitted assets* may be different, depending on State Insurance Departments, because what are admitted as assets in one state may not be admitted in another state. Some element of a lack of uniformity exists on what constitutes not admitted assets. Some examples of not admitted assets are: (1) the adjusting entries for the excess of book value over market value of real estate and securities; and (2) overdue interest on mortgage loans. *See* Admitted assets.

Notes to agents. Some companies permit their agents to take notes for the first-year premiums. If this practice is followed, the rules governing the taking of notes are: (1) notes must bear interest at six per cent yearly; (2) agents may discount the notes, but the net cash must be sent to the company immediately; (3) if the note is not discounted, the net cash must be sent to the company within 60 days; (4) agents will be charged short-term rates for the insurance from the date of issue of the policy to the date on which the policy and release are received at the home office if the agent is unable to deliver the policy or if the policy and a duly executed release is not sent the home office within 60 days. *See* Interim insurance; Agent's note; Cognovit note.

Notice of premium due. Generally, the company under ordinary contracts of life insurance specifying definitely the amount and time of payment of premiums does not have to give the policyholder notice of premiums as they become due unless such is the agreement (whether expressed or implied) or is demanded by law. Of course, in case the company promises to send the policyholder such notices, the insured may wait for such a notice. Also, in policies where the premiums are variable or where dividends are to be used in reducing the premium, the insured is entitled to a notice of the amount due before he is guilty of a default for nonpayment.

The New York statute, unless proper notice has been given the policyholder, forbids the forfeiture of contracts of life insurance for a default in payment of premiums within

one year of such default. This law specifies that:

> No life insurance corporation doing business in this state shall within one year after the default in payment of any premium, installment, or interest, declare forfeited or lapsed, any policy hereafter issued or renewed and not issued upon the payment of monthly or weekly premiums, or unless the same is a term insurance contract for one year or less, nor shall any such policy be forfeited or lapsed by reason of nonpayment when due of any premium, interest, or installment or any portion thereof required by the terms of the policy to be paid, within one year from the failure to pay such premium, interest, or installment, unless a written or printed notice stating the amount of such premium, interest, installment, or portion thereof, due on such policy, the place where it shall be paid, and the persons to whom the same is payable, shall have been duly addressed and mailed to the person whose life is insured, or the assignee of the policy, if notice of the assignment has been given to the corporation, at his or her last known post office address in this state, postage paid by the corporation, or by any officer thereof, or person appointed by it to collect such premium, at least fifteen and not more than forty-five days prior to the day when the same is payable. The notice shall also state that unless such premium, interest, installment, or portion thereof, then due, shall be paid to the corporation, or to the duly appointed agent or person authorized to collect such premium by or before the day it falls due, the policy and all payments thereon will become forfeited and void except the right to a surrender value or paid-up policy as in this chapter provided.

It has been held under this law that notice of premiums due must be sent to the one whose life is insured and not to the beneficiary. When the company has had notice of assignment, notice of premium payments due must be given to the assignee.

If the assessments of a mutual benefit association depend upon the mortality of the members not becoming due at regular intervals for definite amounts, a notice of such assessments must be given.

Not taken policies. This term applies to policies returned for cancellation as undelivered, where actual cash payment of the first premium has not been made or where the policy has not been issued in form and amount as applied for. Up to 60 days after the policy was delivered or mailed to the agent, a not taken policy may be returned for cancellation in some companies, without any requirements as to release, provided statement in writing is made by the agent that the policy has never been in the possession of the applicant, and provided further that any settlement which may have been made by the applicant is also returned to the company.

Release will be required where a not taken policy is returned for cancellation more than 60 days after it was delivered or mailed to the agent, except where written extension of the 60-day period has been secured from the home office.

Except as provided above, no policy will be canceled until proper release, on form provided by the company, is signed by the insured, assignee, if any, and all named beneficiaries.

Where cancellation charges are necessary, they must be paid to the company by the agent. Agents are sometimes required to pay the medical examination fee if the applicant refuses the policy. If not taken policies are not returned to the home office within a specified time, the agent will be charged with the interim term protection. *See* Interim term; Notes to agents.

Numerical rating system. This is a system for the handling of risks with

impairments. On the basis of statistical records, a system of debits and credits has been established for such impairments as: (1) over- and underweight; (2) personal history; (3) family history; (4) occupation; (5) moral hazard; (6) physical condition. When these numerical factors (debits and credits) are applied to a given risk, a rating, favorable or unfavorable, in relation to the normal is made. Any departure from the normal is numerically determined and the premium charge is adjusted accordingly. *See* Substandard insurance; Selection of risks.

Nurse service. Some industrial life insurance companies give a visiting nurse service in connection with their industrial policies. This nursing service has been in connection with a general health service to policyholders which has included health education in the form of literature and radio programs and work with other health agencies. The companies look upon the visiting nurse service as a form of life conservation work, just as the fire insurance companies often engage in fire prevention activities.

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Objectives of life insurance. The primary purpose of life insurance is to protect the families and dependents of an insured from pecuniary loss that would be sustained in the event of his demise.

Life insurance also is used to provide protection to corporations, partnerships, sole proprietorships against the loss by death of an executive or a valuable employee, partner or associate; it is frequently used to protect a creditor from loss by reason of the death of the debtor. *See* Uses of life insurance.

Object of life annuities. Life annuities may be divided into several classes with reference to object, such as those used to provide a life income to the purchaser exclusively, to provide a life income to the purchaser plus provision for refund to another of the balance of the purchase price in the event of the early death of the annuitant, to provide a joint income to the purchaser and another person with the full income payable to the survivor for life, or to provide a life income to another person or persons.

If the sole object of purchasing a life annuity is to provide a guaranteed and maximum income to the annuitant for life, a single premium immediate life annuity is suitable if the annuitant has reached the age at which he wishes the annuity to begin. If, on the other hand, the annuitant is younger, a single premium or annual premium deferred life annuity may be secured to guarantee a future income for the remaining years of life after the annuity is entered upon. Such annuities differ from other investments in that the principal sum paid for the annuity is not to be returned when the annuity ceases to be payable, a part of the capital being returned in each payment. By this plan a larger life income is secured, and, therefore, such a contract is suitable for a person whose main purpose is to obtain a maximum competency for himself.

If the object, however, is primarily to provide an annuity for the purchaser and secondarily to prevent the immediate liquidation of the purchase price in the event of the early death of the annuitant, the single premium refund life annuity is applicable where the annuitant is well along in years and desires to have the annuity begin at the present age. If the annuitant is younger and still in the productive years of life, a

deferred refund life annuity or a retirement annuity with optional refund settlements may be secured by a single premium or by installment premiums. By such methods some provision may be made for a beneficiary in case of the early death of the annuitant.

If the aim of purchasing an annuity is to provide a joint life income for the annuitant and another person with the full amount payable to the last survivor for life, the joint life and survivorship annuity answers the need. If the joint income is not desired until some years later, the deferred joint life and survivorship annuity may be secured.

An annuity may be used for the exclusive purpose of providing a life income to another person or persons. The benevolent use of an annuity to make provisions for others is probably older than the use of an annuity to provide an income for the purchaser. Such an annuity is of testamentary origin, the annuity being substituted for a lump sum bequest. In earlier times, such annuities were frequently issued against the private property of the testator in the custody of trustees. In Europe, this practice still exists to some extent. However, the provision for self, or jointly for self and another, appears to be the more frequent practice today, especially in the United States.

Purchasing annuities exclusively for the benefit of others has been called "farsighted generosity." Briefly, a life annuity may be purchased by a person on the life of an aged and dependent parent, relative, friend, employee, or servant to provide a gift of a life income beginning at the present age. A life annuity may also be used in lieu of bequest. If a person wishes to provide a joint-life income for both parents or for two unmarried or widowed sisters, a joint and last survivor annuity may be secured. Such an annuity may also be purchased for other persons, such as an old couple over whose future the purchaser is concerned. These annuities may be whole life contracts or they may be for a limited period of years. Furthermore, it is sometimes desirable to secure a deferred life annuity on the life of a younger relative, friend, or servant to act as a barrier against future financial misfortunes in their old age. For example, a person may wish to buy as a gift a deferred annuity exclusively on the life of a daughter, son, grandchild, niece, nephew, or friend to guarantee financial independence in old age. Where a child or other dependent exhibits tendencies toward disregard of thrift and foresight in financial matters, such a plan guarantees a sure income after a certain age. In an attempt to encourage thrift, some persons pay the annual premiums on an annual premium retirement annuity on the life of their child, grandchild, or friend for a certain number of years, after which the annuitant must assume the responsibility of future premium payments.

If it is important to have an income assured to another person, such as a mother or father, in the event of the death of a particular person, such as a son or daughter, who is the breadwinner; a survivorship annuity is very suitable.

Lastly and of growing importance in modern business, life annuities may be secured on the lives of a group of persons, such as a number of employees, by means of a group annuity. *See* Life annuities.

Occupational restrictions. Many of the early life insurance policies contained occupational restrictions. Certain extra hazardous types of work, such as handling of explosives, were not insured. Gradual liberal-

ization of policy provisions has led to the elimination of occupational restrictive clauses from the policies. Companies do, however, take the occupation hazard of the insured into consideration when the application for insurance is presented. A statement of the occupation must appear on the application. Moreover, most companies have a classification of the occupational hazard in their agent's manuals. Maximum policy limits apply to various occupations. For example, an accountant who is in classification one will be accepted for $10,000, but a building cleaner (outside) who is in classification seven will be accepted for only $1,000 of insurance. Occupational rating lists are furnished agents which indicate whether or not to decline the risk; if the risk is acceptable at standard or substandard rates; and if disability or double indemnity will be written in connection with the occupation specified. *See* More hazardous occupation.

Office premium. *See* Book premium; Gross premium; Level premium.

Officer's power to waive policy provisions. *See* Agent's power to waive policy provisions.

Ohio Standard. The reserve provision of the Ohio Law states:

> If the premium charged for Term insurance under a Limited-Payment Life or Endowment Preliminary Term policy providing for the payment of all premiums thereon in less than twenty years from the date of the policy exceeds that charged for like insurance under Whole Life Preliminary Term policies of the same company, the reserve thereon at the end of any year, including the first, shall not be less than the reserve on a Whole Life Preliminary Term policy issued in the same year and at the same age together with an amount which shall be equivalent to the accumulation of a net level premium sufficient to provide for a Pure Endowment at the end of the premium-payment period equal to the difference between the value at the end of such period of such a Whole Life Preliminary Term policy and the full reserve at such time of such a Limited-Payment Life or Endowment policy.

From a reading of the law it appears that the straight modified preliminary term system may be used except on the whole life and endowment policies with 20 or more yearly premium payments. On such policies the entire first year's premium, less actual mortality cost, may be used for expenses. On the other hand, a modification of the full preliminary term plan applies if the premiums are for less than 20 years. *See* Valuation standards.

Old age dependency. *See* Social security.

Old age income life insurance. *See* Retirement income.

Old age pensions. *See* Social security; Endowment insurance; Group pensions.

Old line life insurance. In *Mattero v. Central Life Ins. Co.,* 202 Mo. App. 293, the term *old line life insurance* was defined as insurance on a level or flat-rate plan in which a definite amount is payable upon death without condition and for which a certain premium is to be paid without condition at stated intervals. When such insurance is issued, the companies are called *old line companies.*

Insurance companies that operate on the so-called *old line, legal reserve,* or *level premium* basis may be characterized in two ways. First, such companies maintain for the payment of future claims a reserve equal to the amount established by the insurance laws of the various states. Second, such companies also meet the usual state insurance laws or department rulings in regard to such matters as articles of incorporation, licensees, annual reports, payment of taxes, de-

posits, department examinations. Although old line companies may be either stock, mutual, or mixed, so far as the form of their organization is concerned, they should be distinguished from fraternal benefit societies, which do not come under state supervision and regulation applicable to old line companies, but are subject to a special form of state control. Old line companies may do business on a mutual participating plan or on the so-called nonparticipating or guaranteed basis. *See* Legal reserve; Fraternal insurance.

One dollar accumulation. *See* Compound interest.

One payment life policy. *See* Single premium.

One year pure endowment. If the sum under a policy is payable only if the insured survives one year, it is called a one year pure endowment. If the policyholder dies within the year, nothing is payable.

One year term insurance. This is a policy which is payable only in event the insured dies within the year. Nothing is payable if the policyholder survives the year. On certain policies where the full preliminary term valuation method is used, the policies have printed on their face this statement: "The first year's insurance under this policy is term insurance." *See* Term insurance; Valuation standards.

Operative clause. In a general way this clause puts the typical insurance policy into operation. It really tells what the policy covers. Such a clause deals with the factors involving the consideration (premium) for the contract, what the insurance company agrees to do, and so forth. *See* Attestation clause.

Optional modes of settlement. Under contracts of life insurance the provisions of the policies frequently stipulate that in lieu of receiving the payment due at maturity under the contract in a single (one) sum, the insured, or the beneficiary, may choose several installment and annuity features. Although these optional settlements differ in details, fundamentally they provide the following:

Option One: Proceeds at interest. Several variations of this option exist, of which the following are typical:

The payment of interest at the rate of two and one-half per cent (2½%) per annum on the amount left with the Company for such period as may be permitted by the Company. The payee shall not have the right to withdraw any portion of the proceeds retained under this option.

The payment of interest at the rate of two per cent (2%) per annum on the amount left with the Company for such period as may be permitted by the Company. The rights of the payee with regard to withdrawal privileges shall be determined by the company at the time of election of this option.

The proceeds in whole or in part may be left with the Company subject to withdrawal in sums of not less than one hundred dollars. Interest will be credited annually in such amount as the Company shall determine hereunder in accordance with such rate of interest as the Company may declare each year under this option.

Option Two: Installments for a fixed or specified period. The proceeds in whole or in part may be made payable in equal annual, semiannual, quarterly or monthly installments for a fixed period as may be agreed upon, in accordance with the following table (which is based on a guaranteed interest rate of two per cent per annum). The first installment will be payable as of the date when the proceeds of this policy become due. The installment payable on each anniversary of the first installment due date will be increased

by such amount of additional interest as the company shall determine to be payable hereunder in accordance with such rate of additional interest as the company may declare each year under this option.

The monthly income for each $1,000 of proceeds under Option Two will be the amount shown below opposite the number of years selected.

Number of Years	Monthly Income	Number of Years	Monthly Income
1	$84.30	16	$6.30
2	42.67	17	6.00
3	28.80	18	5.73
4	21.86	19	5.49
5	17.70	20	5.28
6	14.93	21	5.08
7	12.95	22	4.91
8	11.47	23	4.75
9	10.32	24	4.60
10	9.40	25	4.46
11	8.64	26	4.34
12	8.02	27	4.23
13	7.49	28	4.12
14	7.03	29	4.02
15	6.64	30	3.93

Option Three: Installment payments of a fixed amount. An income of a fixed amount or installments certain composed of payments of principal and interest on the balance of principal retained by the company at the guaranteed rate of 2½ per cent per annum, increased by any additions as provided below, until the proceeds are exhausted, the final payment not to exceed the unpaid balance of principal plus accrued interest. Interest accrued at the time for any payment shall be paid in lieu of the fixed amount, if greater.

It will be observed that this option is merely the alternate of Option Two and the same table may be used for finding the *period* for which the *fixed amount* will be paid. For example, if the beneficiary wishes a fixed amount of six dollars monthly income, reference to the table will show that this definite sum will be paid for 17 years. If, on the other hand, in Option Two the beneficiary wants installments for 17 years (the specified period), the sum paid or the fixed amount will be six dollars.

Option Four: Installments certain and for life. The company will pay monthly installments for 10, 15 or 20 years, as elected, and so long thereafter as the payee shall live, the amount of such installments to be determined by the payee's sex and age at his (or her) birthday nearest the due date of the first installment according to the table on page 198 for each $1,000 of proceeds:

Option Five: Joint and survivor installments. The company will pay monthly installments for ten years and so long thereafter as the survivor of two payees shall live, the amount of such installments to be determined by the sex of each payee and by the age of each payee at his (or her) birthday nearest the due date of the first installment according to the table on pages 196 and 197 for each $1,000 of proceeds; provided, however, that this option shall not be available if either payee is under 50, nearest birthday, on the due date of the first installment:

Option Six: Joint settlement annuity with two-thirds to survivor. Monthly payments for each $1,000 of net proceeds applied. Payments are made monthly to the joint recipients while both are living; at the first death, payments to the survivor are reduced to ⅔ of the original basis. *There is no minimum period certain.* The ages shown are ages at nearest birthday when first payment is due.

Sex and Age of Payee																						
Male							50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65
Female		50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70
Male	Female																					
	50	$3.51																				
	51	3 54	$3 56																			
	52	3 56	3 61	$3 62																		
	53	3 59	3 62	3 65	$3 68																	
	54	3 62	3 65	3 68	3 72	$3.75																
50	55	3.64	3.68	3.71	3.75	3.78	$3.82															
51	56	3.67	3.70	3.74	3.78	3.81	3.85	$3.89														
52	57	3.69	3.73	3 77	3.81	3.85	3.89	3.92	$3.96													
53	58	3.71	3.76	3.80	3.84	3.88	3.92	3.96	4.00	$4.04												
54	59	3.74	3.78	3.82	3.87	3 91	3 95	4.00	4.04	4.08	$4.12											
55	60	3.76	3.80	3.85	3.90	3.94	3.98	4.03	4.07	4.12	4.16	$4.21										
56	61	3 78	3.83	3.87	3.92	3.97	4.02	4.06	4.11	4.16	4.21	4.25	$4.30									
57	62	3.80	3.85	3.90	3 95	4 00	4.05	4.10	4.15	4.22	4.25	4.30	4.34	$4.39								
58	63	3.82	3.87	3.92	3 97	4.02	4.08	4.13	4.18	4 23	4 29	4.34	4.39	4.44	$4.49							
59	64	3.84	3.89	3 95	4.00	4.05	4.11	4.16	4.21	4.27	4 33	4 38	4.43	4.49	4.54	$4.60						
60	65	3.86	3.91	3.97	4.02	4.08	4.13	4.19	4.25	4.30	4.36	4.42	4.48	4.53	4.59	4.65	$4.71					
61	66	3.88	3.93	3.99	4.05	4.10	4.16	4.22	4.28	4.34	4.40	4.46	4.52	4.58	4.64	4.70	4.76	$4.82				
62	67	3.90	3.95	4.01	4.07	4.13	4.19	4.25	4.31	4.37	4.43	4.50	4.56	4.62	4.69	4.75	4.81	4.88	$4.94			
63	68	3.91	3.97	4.03	4.09	4.15	4.21	4.27	4.34	4.40	4.47	4.53	4.60	4.67	4.73	4.80	4.87	4.93	5.00	$5.06		
64	69	3.93	3.99	4.05	4.11	4.17	4.23	4.30	4.37	4.43	4.50	4.57	4.64	4.71	4.78	4.85	4.92	4.99	5.06	5.13	$5.19	
65	70	3.94	4.00	4.06	4.13	4.19	4.26	4.32	4.39	4.46	4.53	4.61	4.68	4.75	4.82	4.90	4.97	5.04	5.14	5.19	5.26	$5.33
66	71	3.96	4.02	4.08	4.15	4.21	4.28	4.35	4.42	4.49	4.56	4.64	4.71	4.79	4.87	4.94	5.02	5.10	5.17	5.25	5.33	5.40
67	72	3.97	4.03	4.10	4.16	4.23	4.30	4.37	4.44	4.52	4.59	4.67	4.75	4.83	4.91	4.99	5.07	5.15	5.23	5.31	5.39	5.47
68	73	3.98	4.04	4.11	4.18	4.25	4.32	4.39	4.47	4.54	4.62	4.70	4.78	4.86	4.94	5.03	5.11	5.20	5.28	5.37	5.45	5.53
69	74	3.99	4.06	4.12	4.19	4.26	4.34	4.41	4.49	4.57	4.65	4.73	4 81	4.90	4.98	5.07	5.16	5.24	5.33	5.42	5.51	5.60
70	75	4.00	4.07	4.14	4.21	4.28	4.35	4.43	4.51	4.59	4.67	4.76	4.84	4.93	5.02	5.11	5.20	5.29	5.38	5.47	5.57	5.66
71	76	4.01	4.08	4.15	4.22	4.29	4.37	4.45	4.53	4.61	4.69	4.78	4.87	4.96	5.05	5.14	5.24	5.33	5.43	5 52	5.62	5.72
72	77	4.02	4.09	4.16	4.23	4.31	4.38	4.46	4.55	4.63	4.72	4.80	4.89	4.99	5.08	5.18	5.27	5.37	5.48	5 57	5.67	5.77
73	78	4.03	4.10	4.17	4.24	4.32	4.40	4.48	4.56	4.65	4.74	4.83	4.92	5.01	5.11	5.21	5.31	5.41	5.51	5 62	5.72	5.83
74	79	4.04	4.11	4.18	4.25	4.33	4.41	4.49	4.58	4.66	4.75	4.85	4.94	5.05	5.14	5.24	5.34	5.45	5.55	5.66	5.77	5.88

75	80	4.04	4.11	4.19	4.26	4.34	4.42	4.50	4.59	4.68	4.77	4.87	4.96	5.06	5.16	5.27	5.37	5.48	5.59	5.70	5.81	5.92
76	81	4.05	4.12	4.20	4.27	4.35	4.43	4.52	4.60	4.69	4.79	4.88	4.98	5.08	5.19	5.29	5.40	5.51	5.62	5.74	5.85	5.97
77	82	4.06	4.13	4.20	4.28	4.36	4.44	4.53	4.62	4.71	4.80	4.90	5.00	5.10	5.21	5.32	5.43	5.54	5.65	5.77	5.89	6.01
78	83	4.06	4.13	4.21	4.29	4.37	4.45	4.54	4.63	4.72	4.81	4.91	5.01	5.13	5.23	5.34	5.45	5.57	5.68	5.80	5.92	6.05
79	84	4.07	4.14	4.21	4.29	4.37	4.46	4.55	4.64	4.73	4.83	4.93	5.03	5.14	5.24	5.36	5.47	5.59	5.71	5.83	5.95	6.08
80	85 & over	4.07	4.14	4.22	4.30	4.38	4.46	4.55	4.64	4.74	4.84	4.94	5.04	5.15	5.26	5.37	5.49	5.61	5.73	5.86	5.98	6.11
81		4.07	4.15	4.22	4.30	4.38	4.47	4.56	4.65	4.75	4.85	4.95	5.05	5.16	5.27	5.39	5.51	5.63	5.75	5.88	6.01	6.14
82		4.08	4.15	4.23	4.31	4.39	4.48	4.57	4.66	4.75	4.85	4.96	5.06	5.17	5.29	5.40	5.52	5.65	5.77	5.90	6.03	6.16
83		4.08	4.15	4.23	4.31	4.39	4.48	4.57	4.66	4.76	4.86	4.97	5.07	5.18	5.30	5.42	5.54	5.66	5.79	5.92	6.05	6.19
84		4.08	4.16	4.23	4.31	4.40	4.49	4.58	4.67	4.77	4.87	4.97	5.08	5.19	5.31	5.43	5.55	5.67	5.80	5.94	6.07	6.21
85 & over		4.08	4.16	4.24	4.32	4.40	4.49	4.58	4.67	4.77	4.87	4.98	5.09	5.20	5.32	5.44	5.56	5.69	5.82	5.95	6.09	6.22

Male		66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85 & over
Female		71	72	73	74	75	76	77	78	79	80	81	82	83	84	85 & over					
Male	Female																				
66	71	$5.47																			
67	72	5.55	$5.62																		
68	73	5.62	5.70	$5.78																	
69	74	5.68	5.77	5.85	$5.94																
70	75	5.75	5.84	5.93	6.02	$6.10															
71	76	5.81	5.91	6.00	6.09	6.18	$6.27														
72	77	5.87	5.97	6.07	6.21	6.26	6.35	$6.44													
73	78	5.93	6.03	6.14	6.24	6.34	6.44	6.53	$6.62												
74	79	5.98	6.09	6.20	6.31	6.41	6.51	6.61	6.71	$6.80											
75	80	6.04	6.15	6.26	6.37	6.48	6.59	6.69	6.79	6.89	$6.99										
76	81	6.08	6.20	6.32	6.43	6.55	6.66	6.77	6.87	6.98	7.08	$7.17									
77	82	6.13	6.25	6.37	6.49	6.61	6.72	6.84	6.95	7.06	7.16	7.26	$7.36								
78	83	6.17	6.29	6.42	6.54	6.66	6.78	6.90	7.02	7.13	7.24	7.35	7.44	$7.54							
79	84	6.21	6.33	6.46	6.59	6.72	6.84	6.96	7.03	7.20	7.32	7.42	7.53	7.63	$7.72						
80	85 & over	6.24	6.37	6.50	6.63	6.76	6.89	7.02	7.15	7.27	7.38	7.50	7.61	7.71	7.80	$7.89					
81		6.27	6.41	6.54	6.67	6.81	6.94	7.07	7.20	7.33	7.45	7.56	7.68	7.78	7.88	7.98	$8.06				
82		6.30	6.44	6.57	6.71	6.85	6.98	7.12	7.25	7.38	7.50	7.62	7.74	7.85	7.95	8.05	8.14	$8.22			
83		6.32	6.46	6.60	6.74	6.88	7.02	7.16	7.29	7.43	7.56	7.68	7.80	7.91	8.02	8.12	8.21	8.30	$8.38		
84		6.35	6.49	6.63	6.77	6.91	7.05	7.20	7.33	7.47	7.60	7.73	7.85	7.97	8.08	8.18	8.28	8.37	8.45	$8.52	
85 & over		6.36	6.51	6.65	6.80	6.94	7.08	7.23	7.37	7.51	7.64	7.77	7.90	8.02	8.13	8.24	8.33	8.43	8.51	8.59	$8.65

Age of Payee		Number of Years Certain			Age of Payee		Number of Years Certain			Age of Payee		Number of Years Certain		
Male	Female	10	15	20	Male	Female	10	15	20	Male	Female	10	15	20
10	15	$3.02	$3.01	$3.00	35	40	$3.78	$3.75	$3.70	60	65	$5.88	$5.47	$5.00
11	16	3.04	3.03	3.02	36	41	3.83	3.79	3.74	61	66	6.01	5.55	5.05
12	17	3.06	3.05	3.04	37	42	3.88	3.84	3.78	62	67	6.14	5.64	5.10
13	18	3.08	3.07	3.06	38	43	3.93	3.89	3.83	63	68	6.28	5.73	5.14
14	19	3.10	3.09	3.08	39	44	3.99	3.94	3.87	64	69	6.42	5.81	5.19
15	20	3.12	3.11	3.10	40	45	4.05	4.00	3.92	65	70	6.57	5.90	5.23
16	21	3.14	3.13	3.12	41	46	4.11	4.05	3.97	66	71	6.71	5.98	5.23
17	22	3.16	3.15	3.14	42	47	4.17	4.11	4.02	67	72	6.86	6.06	5.23
18	23	3.18	3.17	3.16	43	48	4.24	4.17	4.07	68	73	7.02	6.14	5.23
19	24	3.21	3.20	3.19	44	49	4.31	4.23	4.12	69	74	7.17	6.21	5.23
20	25	3.23	3.22	3.21	45	50	4.38	4.29	4.17	70	75	7.32	6.29	5.23
21	26	3.26	3.25	3.24	46	51	4.45	4.36	4.23	71	76	7.48	6.35	5.23
22	27	3.29	3.28	3.26	47	52	4.53	4.43	4.28	72	77	7.63	6.42	5.23
23	28	3.32	3.31	3.29	48	53	4.61	4.50	4.34	73	78	7.78	6.42	5.23
24	29	3.35	3.34	3.32	49	54	4.70	4.57	4.39	74	79	7.93	6.42	5.23
25	30	3.38	3.37	3.35	50	55	4.79	4.64	4.45	75	80	8.08	6.42	5.23
26	31	3.41	3.40	3.38	51	56	4.88	4.72	4.50	76	81	8.22	6.42	5.23
27	32	3.45	3.43	3.41	52	57	4.97	4.79	4.56	77	82	8.36	6.42	5.23
28	33	3.48	3.46	3.44	53	58	5.07	4.87	4.62	78	83	8.50	6.42	5.23
29	34	3.52	3.50	3.47	54	59	5.18	4.95	4.68	79	84	8.62	6.42	5.23
										80	85	8.74	6.42	5.23
30	35	3.56	3.54	3.51	55	60	5.28	5.04	4.73					
31	36	3.60	3.58	3.54	56	61	5.39	5.12	4.79					
32	37	3.64	3.62	3.58	57	62	5.51	5.21	4.84					
33	38	3.68	3.66	3.62	58	63	5.63	5.29	4.90					
34	39	3.73	3.70	3.66	59	64	5.75	5.38	4.95					

Note: The amount of the instalments for younger ages will be the same as for the first age shown in the above table and the amount for older ages will be the same as for the last age shown.

Age of Older Life M	F	Age of Younger Life M 40 F 45	M 41 F 46	M 42 F 47	M 43 F 48	M 44 F 49	M 45 F 50	M 46 F 51	M 47 F 52	M 48 F 53
40	45	3.89	3.92	3.95	3.98	4.01	4.04	4.07	4.10	4.13
41	46	3.92	3.95	3.98	4.01	4.04	4.07	4.10	4.13	4.17
42	47	3.95	3.98	4.01	4.04	4.07	4.10	4.13	4.17	4.20
43	48	3.98	4.01	4.04	4.07	4.10	4.14	4.17	4.20	4.24
44	49	4.01	4.04	4.07	4.10	4.14	4.17	4.20	4.24	4.28
45	50	4.04	4.07	4.10	4.14	4.17	4.21	4.24	4.28	4.31
46	51	4.07	4.10	4.13	4.17	4.20	4.24	4.28	4.31	4.35
47	52	4.10	4.13	4.17	4.20	4.24	4.28	4.31	4.35	4.39
48	53	4.13	4.17	4.20	4.24	4.28	4.31	4.35	4.39	4.43
49	54	4.16	4.20	4.24	4.27	4.31	4.35	4.39	4.43	4.47
50	55	4.20	4.23	4.27	4.31	4.35	4.39	4.43	4.47	4.52
51	56	4.23	4.27	4.30	4.34	4.39	4.43	4.47	4.51	4.56
52	57	4.26	4.30	4.34	4.38	4.42	4.47	4.51	4.56	4.60
53	58	4.29	4.34	4.38	4.42	4.46	4.51	4.55	4.60	4.64
54	59	4.33	4.37	4.41	4.46	4.50	4.55	4.59	4.64	4.69
55	60	4.36	4.41	4.45	4.49	4.54	4.59	4.64	4.68	4.74
56	61	4.40	4.44	4.49	4.53	4.58	4.63	4.68	4.73	4.78
57	62	4.43	4.48	4.52	4.57	4.62	4.67	4.72	4.77	4.83
58	63	4.47	4.52	4.56	4.61	4.66	4.71	4.76	4.82	4.87
59	64	4.51	4.55	4.60	4.65	4.70	4.75	4.81	4.86	4.92
60	65	4.54	4.59	4.64	4.69	4.74	4.80	4.85	4.91	4.97
61	66	4.58	4.63	4.68	4.73	4.78	4.84	4.90	4.95	5.01
62	67	4.61	4.66	4.72	4.77	4.83	4.88	4.94	5.00	5.06
63	68	4.65	4.70	4.76	4.81	4.87	4.93	4.99	5.05	5.11
64	69	4.69	4.74	4.80	4.85	4.91	4.97	5.03	5.09	5.16
65	70	4.73	4.78	4.84	4.89	4.95	5.01	5.08	5.14	5.21
66	71	4.76	4.82	4.87	4.93	4.99	5.06	5.12	5.19	5.26
67	72	4.80	4.86	4.91	4.97	5.04	5.10	5.17	5.24	5.31
68	73	4.84	4.90	4.95	5.02	5.08	5.15	5.21	5.28	5.36
69	74	4.88	4.93	4.99	5.06	5.12	5.19	5.26	5.33	5.40
70	75	4.91	4.97	5.03	5.10	5.16	5.23	5.30	5.38	5.45
71	76	4.95	5.01	5.07	5.14	5.21	5.28	5.35	5.43	5.50
72	77	4.99	5.05	5.11	5.18	5.25	5.32	5.40	5.47	5.55
73	78	5.02	5.09	5.15	5.22	5.29	5.36	5.44	5.52	5.60
74	79	5.06	5.13	5.19	5.26	5.33	5.41	5.49	5.57	5.65
75	80	5.10	5.16	5.23	5.30	5.38	5.45	5.53	5.61	5.70

Age of Older Life M	F	Age of Younger Life M 49 F 54	M 50 F 55	M 51 F 56	M 52 F 57	M 53 F 58	M 54 F 59	M 55 F 60	M 56 F 61	M 57 F 62
40	45	4.16	4.20	4.23	4.26	4.29	4.33	4.36	4.40	4.43
41	46	4.20	4.23	4.27	4.30	4.34	4.37	4.41	4.44	4.48
42	47	4.24	4.27	4.30	4.34	4.38	4.41	4.45	4.49	4.52
43	48	4.27	4.31	4.34	4.38	4.42	4.46	4.49	4.53	4.57
44	49	4.31	4.35	4.39	4.42	4.46	4.50	4.54	4.58	4.62
45	50	4.35	4.39	4.43	4.47	4.51	4.55	4.59	4.63	4.67
46	51	4.39	4.43	4.47	4.51	4.55	4.59	4.64	4.68	4.72
47	52	4.43	4.47	4.51	4.56	4.60	4.64	4.68	4.73	4.77
48	53	4.47	4.52	4.56	4.60	4.64	4.69	4.74	4.78	4.83
49	54	4.52	4.56	4.60	4.65	4.69	4.74	4.79	4.83	4.88
50	55	4.56	4.60	4.65	4.70	4.74	4.79	4.84	4.89	4.94
51	56	4.60	4.65	4.70	4.74	4.79	4.84	4.89	4.94	4.99
52	57	4.65	4.70	4.74	4.79	4.84	4.89	4.95	5.00	5.05
53	58	4.69	4.74	4.79	4.84	4.90	4.95	5.00	5.06	5.11
54	59	4.74	4.79	4.84	4.89	4.95	5.00	5.06	5.11	5.17
55	60	4.79	4.84	4.89	4.95	5.00	5.06	5.12	5.17	5.23
56	61	4.83	4.89	4.94	5.00	5.06	5.11	5.17	5.23	5.30
57	62	4.88	4.94	4.99	5.05	5.11	5.17	5.23	5.30	5.36
58	63	4.93	4.99	5.05	5.11	5.17	5.23	5.29	5.36	5.43
59	64	4.98	5.04	5.10	5.16	5.22	5.29	5.35	5.42	5.49
60	65	5.03	5.09	5.15	5.21	5.28	5.35	5.42	5.48	5.56
61	66	5.08	5.14	5.20	5.27	5.34	5.41	5.48	5.55	5.63
62	67	5.13	5.19	5.26	5.33	5.40	5.47	5.54	5.62	5.69
63	68	5.18	5.24	5.31	5.38	5.46	5.53	5.61	5.68	5.76
64	69	5.23	5.30	5.37	5.44	5.51	5.59	5.67	5.75	5.83
65	70	5.28	5.35	5.42	5.50	5.57	5.65	5.74	5.82	5.90
66	71	5.33	5.40	5.48	5.55	5.63	5.72	5.80	5.89	5.97
67	72	5.38	5.45	5.53	5.61	5.69	5.78	5.87	5.95	6.05
68	73	5.43	5.51	5.59	5.67	5.75	5.84	5.93	6.02	6.12
69	74	5.48	5.56	5.64	5.73	5.81	5.90	6.00	6.09	6.19

Age of Older Life M	F	Age of Younger Life M 49 F 54	M 50 F 55	M 51 F 56	M 52 F 57	M 53 F 58	M 54 F 59	M 55 F 60	M 56 F 61	M 57 F 62
70	75	5.53	5.61	5.70	5.79	5.87	5.97	6.06	6.16	6.26
71	76	5.58	5.67	5.75	5.84	5.93	6.03	6.13	6.23	6.33
72	77	5.63	5.72	5.81	5.90	6.00	6.09	6.19	6.30	6.41
73	78	5.69	5.77	5.86	5.96	6.06	6.16	6.26	6.37	6.48
74	79	5.74	5.83	5.92	6.01	6.11	6.22	6.32	6.43	6.55
75	80	5.79	5.88	5.97	6.07	6.17	6.28	6.39	6.50	6.62

Age of Older Life M	F	Age of Younger Life M 58 F 63	M 59 F 64	M 60 F 65	M 61 F 66	M 62 F 67	M 63 F 68	M 64 F 69	M 65 F 70	M 66 F 71
40	45	4.47	4.51	4.54	4.58	4.61	4.65	4.69	4.73	4.76
41	46	4.52	4.55	4.59	4.63	4.66	4.70	4.74	4.78	4.82
42	47	4.56	4.60	4.64	4.68	4.72	4.76	4.80	4.84	4.87
43	48	4.61	4.65	4.69	4.73	4.77	4.81	4.85	4.89	4.93
44	49	4.66	4.70	4.74	4.78	4.83	4.87	4.91	4.95	4.99
45	50	4.71	4.75	4.80	4.84	4.88	4.93	4.97	5.01	5.06
46	51	4.76	4.81	4.85	4.90	4.94	4.99	5.03	5.08	5.12
47	52	4.82	4.86	4.91	4.95	5.00	5.05	5.09	5.14	5.19
48	53	4.87	4.92	4.97	5.01	5.06	5.11	5.16	5.21	5.26
49	54	4.93	4.98	5.03	5.08	5.13	5.18	5.23	5.28	5.33
50	55	4.99	5.04	5.09	5.14	5.19	5.24	5.30	5.35	5.40
51	56	5.05	5.10	5.15	5.20	5.26	5.31	5.37	5.42	5.48
52	57	5.11	5.16	5.21	5.27	5.33	5.38	5.44	5.50	5.55
53	58	5.17	5.22	5.28	5.34	5.40	5.46	5.51	5.57	5.63
54	59	5.23	5.29	5.35	5.41	5.47	5.53	5.59	5.65	5.72
55	60	5.29	5.35	5.42	5.48	5.54	5.61	5.67	5.74	5.80
56	61	5.36	5.42	5.48	5.55	5.62	5.68	5.75	5.82	5.89
57	62	5.43	5.49	5.56	5.63	5.69	5.76	5.83	5.90	5.97
58	63	5.49	5.56	5.63	5.70	5.77	5.85	5.92	5.99	6.07
59	64	5.56	5.63	5.71	5.78	5.85	5.93	6.00	6.08	6.16
60	65	5.63	5.71	5.78	5.86	5.93	6.01	6.09	6.17	6.25
61	66	5.70	5.78	5.86	5.94	6.02	6.10	6.18	6.26	6.35
62	67	5.77	5.85	5.93	6.02	6.10	6.19	6.27	6.36	6.45
63	68	5.85	5.93	6.01	6.10	6.19	6.28	6.37	6.45	6.55
64	69	5.92	6.00	6.09	6.18	6.27	6.37	6.46	6.56	6.65
65	70	5.99	6.08	6.17	6.26	6.36	6.45	6.56	6.65	6.76
66	71	6.07	6.16	6.25	6.35	6.45	6.55	6.65	6.76	6.86
67	72	6.14	6.24	6.33	6.44	6.54	6.64	6.75	6.86	6.97
68	73	6.21	6.31	6.42	6.52	6.63	6.74	6.85	6.96	7.08
69	74	6.29	6.39	6.50	6.61	6.72	6.83	6.95	7.07	7.19
70	75	6.37	6.47	6.58	6.69	6.81	6.93	7.05	7.17	7.30
71	76	6.44	6.55	6.66	6.78	6.90	7.02	7.15	7.28	7.41
72	77	6.52	6.63	6.75	6.87	6.99	7.12	7.25	7.38	7.52
73	78	6.59	6.71	6.83	6.96	7.08	7.22	7.35	7.49	7.63
74	79	6.67	6.79	6.91	7.04	7.18	7.31	7.45	7.60	7.74
75	80	6.74	6.87	7.00	7.13	7.27	7.41	7.55	7.70	7.86

Age of Older Life M	F	Age of Younger Life M 67 F 72	M 68 F 73	M 69 F 74	M 70 F 75	M 71 F 76	M 72 F 77	M 73 F 78	M 74 F 79	M 75 F 80
40	45	4.80	4.84	4.88	4.91	4.95	4.99	5.02	5.06	5.10
41	46	4.86	4.90	4.93	4.97	5.01	5.05	5.09	5.13	5.16
42	47	4.91	4.95	4.99	5.03	5.07	5.11	5.15	5.19	5.23
43	48	4.97	5.02	5.06	5.10	5.14	5.18	5.22	5.26	5.30
44	49	5.04	5.08	5.12	5.16	5.21	5.25	5.29	5.33	5.38
45	50	5.10	5.15	5.19	5.23	5.28	5.32	5.36	5.41	5.45
46	51	5.17	5.21	5.26	5.30	5.35	5.40	5.44	5.49	5.53
47	52	5.24	5.28	5.33	5.38	5.43	5.47	5.52	5.57	5.61
48	53	5.31	5.36	5.40	5.45	5.50	5.55	5.60	5.65	5.70
49	54	5.38	5.43	5.48	5.53	5.58	5.63	5.69	5.74	5.79
50	55	5.45	5.51	5.56	5.61	5.67	5.72	5.77	5.83	5.88
51	56	5.53	5.59	5.64	5.70	5.75	5.81	5.86	5.92	5.97
52	57	5.61	5.67	5.73	5.79	5.84	5.90	5.96	6.01	6.07
53	58	5.69	5.75	5.81	5.87	5.93	6.00	6.06	6.11	6.17
54	59	5.78	5.84	5.90	5.97	6.03	6.09	6.16	6.22	6.28
55	60	5.87	5.93	6.00	6.06	6.13	6.19	6.26	6.32	6.39
56	61	5.95	6.02	6.09	6.16	6.23	6.30	6.37	6.43	6.50
57	62	6.05	6.12	6.19	6.26	6.33	6.41	6.48	6.55	6.62
58	63	6.14	6.21	6.29	6.37	6.44	6.52	6.59	6.67	6.74
59	64	6.24	6.31	6.39	6.47	6.55	6.63	6.71	6.79	6.87

Age of Older Life M	F	Age of Younger Life M 67 F 72	M 68 F 73	M 69 F 74	M 70 F 75	M 71 F 76	M 72 F 77	M 73 F 78	M 74 F 79	M 75 F 80
60	65	6.33	6.42	6.50	6.58	6.66	6.75	6.83	6.91	7.00
61	66	6.44	6.52	6.61	6.69	6.78	6.87	6.96	7.04	7.13
62	67	6.54	6.63	6.72	6.81	6.90	6.99	7.08	7.18	7.27
63	68	6.64	6.74	6.83	6.93	7.02	7.12	7.22	7.31	7.41
64	69	6.75	6.85	6.95	7.05	7.15	7.25	7.35	7.45	7.55
65	70	6.86	6.96	7.07	7.17	7.28	7.38	7.49	7.60	7.70
66	71	6.97	7.08	7.19	7.30	7.41	7.52	7.63	7.74	7.86
67	72	7.08	7.19	7.31	7.42	7.54	7.66	7.78	7.90	8.01
68	73	7.19	7.31	7.43	7.55	7.68	7.80	7.93	8.05	8.18
69	74	7.31	7.43	7.56	7.69	7.81	7.95	8.08	8.21	8.34
70	75	7.42	7.55	7.69	7.82	7.96	8.09	8.23	8.37	8.51
71	76	7.54	7.68	7.81	7.96	8.10	8.24	8.39	8.53	8.68
72	77	7.66	7.80	7.95	8.09	8.24	8.39	8.54	8.70	8.85
73	78	7.78	7.93	8.08	8.23	8.39	8.54	8.71	8.87	9.03
74	79	7.90	8.05	8.21	8.37	8.53	8.70	8.87	9.04	9.21
75	80	8.01	8.18	8.34	8.51	8.68	8.85	9.03	9.21	9.39

The payment for a given combination of ages will be found by referring to the age of the older life, as shown in the column, and then following across the line of values horizontally to the value corresponding to the age of the younger life. (To obtain annual, semi-annual or quarterly payment, multiply monthly payment by 11.50, 5.93, or 2.98, respectively.)

Option Seven: Life annuity. Some companies will pay the proceeds as a life annuity according to the effective rates of the company at the time this option is selected. *See* Life annuities.

The idea of optional modes of settlement and installment payments really began in this country shortly after the requirement of the standard policy forms in 1907 by New York State. Optional modes of settlement were included in these standard policies and the practice spread to other states. It was not until about 1920, however, that the election of optional modes of settlement commenced to develop in this country. During the last decade the idea has spread more rapidly, although the extent of the use of election of optional modes is probably not in excess of 20 per cent of the amount of new insurance issued. The growth of the idea will depend on the extent to which agents call attention to the matter, and possibly upon the companies keeping the settlement options simple and unambiguous.

The election of one of the options discussed can be made by the policyholder when the policy is issued, or may be made after the policy is in force. Such an election on the part of the policyholder may withhold from the beneficiary the right, after the death of the policyholder, either to ask a single lump sum payment from the insurance company in lieu of the settlement provided for, or, during the continuance of the settlement, to assign or transfer the income or other benefits to another party. Unless otherwise provided in the election, a commutation of future payments may be made. If no election is made by the insured during his lifetime, the beneficiary may make an election when the claim is to be paid.

To summarize the optional modes of settlement under a life insurance policy, these may be divided into three general classes: (1) payment of a single lump sum; (2) payment of interest on the principal sum; or (3) payment of the principal sum in an income in some form. The usual income payments are as follows: (a) payment of equal income installments for a fixed period of years; (b) payment of equal income installments for a fixed period of years with continued payment of such installments to beneficiary if living; and (c) payment of a fixed income until the principal sum is exhausted with yearly interest credited to the

capital sum; and (d) payment of some type of an annuity.

Option of surrender or lapse. After a life insurance policy has been in force three years, the owner, within one month after any default may elect (a) to accept the value of the policy in cash; or (b) to have the insurance continued in force from date of default, without future participation and without the right to loan, for its face amount, including any outstanding dividend additions, less any indebtedness to the company thereon; or (c) to purchase nonparticipating paid-up insurance payable at the same time and on the same conditions as this policy. Such a provision is found in many state insurance laws, and is a provision of standard life insurance contracts. *See* Nonforfeiture options.

Options on dividends. *See* Dividend options.

Option to convert. *See* Conversion values.

Ordinary immediate annuity. *See* Life annuities; Immediate annuities.

Ordinary life policy. An ordinary life policy is a policy of life insurance, sometimes called *annual, whole life* or *straight life,* for which the assured pays premiums so long as he lives. The proceeds are payable at his death. Under this policy the policyholder pays a definite premium every year until his death. The insurance is payable at his death to his beneficiary or estate. Dividends may be applied annually on participating policies to reduce the premiums or increase the insurance.

Some of the advantages claimed for the ordinary life or straight life policy are as follows:

1. Because of its simplicity the policy is widely and perhaps best understood by the average policyholder.

2. It gives a maximum of protection for a quite reasonable expenditure of money.

3. It gives a permanent form of protection that is suited to the vast majority of policyholders.

4. In addition to the element of protection the policy also contains a small investment or savings feature.

5. The premium-paying period can be shortened under participating policies through the use of dividends to secure a paid-up policy.

6. For the money expended the policyholder secures a larger amount of immediate protection under the ordinary life policy than under the endowment or the limited payment life policies.

Orphan policies. An orphan policyholder is a person who has bought insurance from some agency that is no longer in business. Most companies urge their agents to service and to seek the reinstatement of orphan policyholders.

Other insurance. *See* Prorate clause.

Outlaw company. *See* Unauthorized company.

Outstanding policies. Many companies consider as "outstanding" all policies until the net premium has been received. Policies, as a rule, that are outstanding over 60 days are considered "past due" policies.

Overcharge. Sometimes the participating premium is calculated to take care of protection against emergencies and unforeseeable contingencies in mortality, expenses, and investment fluctuations. If these emergencies do not materialize the excess amount of the premium, in the nature of an "overcharge" is refunded in what is called dividends under participating contracts. *See* Nonparticipating insurance.

P

Paid-up annuity rights. Under an installment premium annuity contract

which has been in force a certain period, a paid-up annuity must be provided by the insurance company in case of default in premium payment. Usually, under an annual premium deferred annuity after the first, second, or third contract year (depending upon the rule of the particular company), a paid-up annuity is automatically allowed without any stipulation or act on the part of the annuitant in case of default in premium payments.

The merit of the paid-up annuity over the cash surrender value option is that it continues an annuity in force, though reduced in amount. Such reduction, of course, is very great where the paid-up annuity is taken in the first years of the deferred period. *See* Nonforfeiture options; Life annuities.

Paid-up dividend option. Many life insurance policies contain a provision whereby the policyholder may use dividends to: (1) convert life policies to paid-up insurance; or (2) mature a policy. The first application of the dividend is called the "paid-up option" whereas the second use of the dividend is called the "endowment option." A variation of the paid-up option is to reduce the total number of premiums payable as each dividend is declared. Paid-up additions increase the cash, loan, and paid-up values of the insurance. *See* Accelerative options.

Paid-up insurance rights. Life insurance policies and some state laws provide that on default in premium payments the insured is entitled to a paid-up policy for the amount the premiums paid will purchase. The general rule now indicates that the amount of the paid-up policy is to be the entire amount purchased by the number of annual premiums paid either in cash or by note, less the unpaid notes. In some states it has been held that such paid-up insurance is insurance for life and not a limited time. After a policy has been in force a sufficient time, the paid-up value is usually greater than the total premiums which have been paid in.

Such a provision in life policies usually states that the insured is entitled, after default in premium payment, to a paid-up policy if he asks for it and gives up the other policy within a certain time. The general rule, except in Kentucky, is that to be entitled to a paid-up policy, the insured must demand a paid-up insurance contract and surrender the original policy within the time specified in the policy. The Kentucky courts have held (*Aetna Life Ins. Co. v. Sugg*, 120 Ky. 449, 86 S. W. 967, 27 Ky. Law Rep. 846) that compliance with these conditions within a reasonable time is sufficient, and five years has been held to be a reasonable time. On the other hand, if there is an option given by the policy of electing paid-up insurance or extended term insurance, the demand for paid-up insurance must be made within the designated time or term insurance will be applicable. Paid-up insurance may be surrendered for the cash value which increases year by year. *See* Nonforfeiture options.

Paid-up life insurance policy. A paid-up policy is one in which the required premiums have been fully paid. A ten payment or twenty payment life policy becomes a paid-up policy at the expiration of the period. A single premium ordinary life policy, after the premium is paid, is a paid-up life insurance contract.

Paid-up term insurance. *See* Automatic option on lapse; Nonforfeiture options.

Partial premiums. Ordinary life insurance is issued on the basis of an annual premium for $1,000 of in-

surance. Company practice, however, permits the payment of these premiums on a semiannual, quarterly, or monthly basis. The balance of the yearly premium is deducted from the proceeds of the policy if death occurs before the full year's premium has been paid. Loss of interest and extra expenses make the partial premiums more expensive than the full annual premium. Companies have devised what are called "factors" for calculating the partial or installment premiums. The following is a typical set of factors for finding the partial premium from the annual premium, by simply multiplying the yearly premium by the factor:

Semiannual	.51
Quarterly	.26
Monthly	.088333

Participating annuity. In some instances reversionary annuities may be written on a participating plan. Whereas some companies issue nonparticipating retirement annuities, many companies issue retirement annuities on a participating basis before the commencement of the income payments. The share of the annuity contract in the divisible surplus or profits of the company is frequently called a dividend. This so-called dividend is made up largely of refund of money previously paid in by annuitants. If the contract is written on a participating basis, the state law may regulate the matter of distribution of surplus and require annual distribution. If the retirement annuity is issued on a participating basis, it contains a provision promising annual distribution of surplus as apportioned by the company. It is customary to allow the annuitant various options in the disposal of the annual dividend, such as to receive the dividend in cash, or to leave the dividend with the company to accumulate at interest, which sum is payable with the proceeds of the contract on its surrender or is subject to withdrawal in cash on demand by the holder. If the contract is issued on the installment basis rather than the single premium plan, a third option is frequently available, that of using the dividend to reduce the premium payments. The contract states which method of distribution becomes automatic in case there is no election by the annuitant. *See* Life annuities.

Participating insurance. When the policyholder shares in the so-called *dividends* or *profits* of a company, such a plan is called *participating insurance.* In the case of *Fry v. Provident Savings Life Assurance Society* (Tenn. Ch. App. 38 S. W. 116), the court explained that a participating policy is one in which the policyholder shares in the profits resulting from the premiums he has paid and those paid by others of his class. What the policyholder really gets under a participating policy is a refund arising out of the savings, economies, and efficient management of the company, and not a *profit,* which is really a reward for risk taking. The amounts of premium loadings on participating and nonparticipating policies are different. Stock companies usually issue nonparticipating insurance and charge a low initial premium. Rates for such policies are often called *stock rates.* In some cases where the state laws do not forbid the same company to issue the two classes of policies, a stock company may also issue participating policies, for which a higher premium is required than on its nonparticipating policies.

Mutual companies, on the other hand, generally issue participating insurance, the initial rates of which are higher than nonparticipating in-

surance, but the policyholder receives a refund after the mortality savings, interest, earnings, and acquisition costs have been determined. Both methods have certain advantages, and a choice between them depends largely upon the particular conditions and needs of the policyholder.

Most policies provide four methods or options for the use of these dividends, of which the following are typical:

1. Applied to purchase nonparticipating paid-up additional insurance to the policy, or,
2. Applied to the payment of any premium or premiums, or,
3. Paid in cash, or,
4. Left to accumulate to the credit of the policy with compound interest, at the rate of not less than three per cent (3%) per annum, as determined by the Company, and payable at the maturity of the policy, but withdrawable at any time. If any premium or installment thereof remains unpaid at the expiration of the grace period, the Company shall apply such dividend accumulations to the premium or installment thereof then due.

Unless the Insured or owner of this policy shall elect otherwise within three months after any dividend is due, the dividend shall be applied to the purchase of a paid-up addition. Paid-up additions may be surrendered for their reserve value at any time, which value shall not be less than the original dividend, provided such value has not been applied to purchase paid-up or extended term insurance, in accordance with the Nonforfeiture Options contained herein.

See Nonparticipating insurance.

Partnership insurance. Partnership insurance is insurance on the life of a partner (usually in a business enterprise) in favor of one or more specified partners as beneficiary. Upon the death of either of the partners, the face amount of the policy is paid to the surviving partner and the insurance expires.

The specific uses for partnership insurance are briefly:

1. To facilitate the liquidation of the interest of a deceased partner.
2. To capitalize the value of an important member of a firm.
3. To provide a means of establishing and strengthening credit.
4. To establish reserves for definite purposes or contingencies.

See Corporation insurance.

Part-time agent. *See* Agent.

Passenger clause. *See* Double indemnity.

Payment of annuity income. Upon the basis of the payment of the income, annuities may be viewed from four angles: the interval of the income payments, the commencement of the payments, whether the annuity is apportionable to date of death, and the relative size of payments.

1. Interval of Payments. The word *annuity* in a technical sense refers to an annual payment, but in practice annuities are frequently issued to provide payments to the annuitant not only annually but also semiannually, quarterly, or monthly. Although it is not practical from a business point of view, an annuity could be payable more frequently than monthly, such as weekly or even daily. By carrying this frequency factor further, it is possible to imagine a continuous annuity with a fixed sum payable in countless installments of infinitely minute size during each year.

In modern practice the prospective annuitant usually has the choice of purchasing an annuity payable to him annually, semiannually, quarterly, or monthly. Measuring from the contract anniversary after the annuity is "entered upon," the annuitant receives his income checks periodically each year under an annual form, every six months under a semiannual annuity, every three months

under a quarterly annuity, and each month under a monthly annuity. This factor is reflected in the cost of the annuity. The more frequent income payments entail more clerical expense on the insurer, and under contracts payable at the end of the income frequency period there is the loss of interest on sums paid before the end of the year and the chance of paying more in the last year of the contract.

2. Commencement of Payments. The beginning of the payments by the insurer may be viewed from the standpoint of the income payment interval or a certain time, such as the age of the annuitant or the contract anniversary.

A. WITHIN PAYMENT INTERVAL.—In the light of when the payment to the annuitant begins with reference to the interval of payment, an annuity may be classified as an annuity-due or an ordinary annuity (annuity-immediate).

(1) *Annuity-Due.*—If the first payment (and each successive payment) to the annuitant is made in advance, that is, at the beginning of the first frequency period (and each successive interval), it is called an *annuity-due.* A life annuity, therefore, is an annuity-due when the income is payable to the annuitant at the beginning of the first payment interval and each successive interval that the annuitant survives to enter upon. Except in the case of a deferred annuity, the first amount is payable under such a contract to the annuitant at once as soon as the contract is issued, and the last payment to the annuitant is made at the beginning of the payment interval in which death occurs.

(2) *Annuity-Immediate.* — Where the first payment by the insurer to the annuitant is due at the end of the first and each successive payment interval, the annuity is sometimes referred to as an *annuity-immediate* when it is desired to distinguish it from an annuity-due. It is generally assumed, however, that the payment under an ordinary annuity is to be made at the end of the payment interval, unless otherwise provided.

B. WITH REFERENCE TO A CERTAIN TIME.—The commencement of the payment to the annuitant may be analyzed from the standpoint of a certain time, such as the contract anniversary or the present age of the annuitant. For example, an annuity may begin during the present year of the purchase of the contract (ordinary annuity), it may not begin until several years after this time (deferred annuity), or the payments may not be withdrawn as they fall due but may be left to accumulate a certain number of years (forborne annuity).

This classification of ordinary or immediate annuities and deferred annuities is very important from the standpoint of the annuity agent and the prospective annuitant, because each of these general types of annuities is suitable for prospects of different ages with varying needs, and also because there are different purchase requirements.

(1) *Ordinary Immediate Annuity.*—In order to avoid confusion with a deferred life annuity, the annuity that provides an income to the annuitant at once at the end of the first annuity frequency period (if the annuitant is then alive), without several years intervening between the purchase date and the commencement of the income, is sometimes termed an *ordinary immediate life annuity,* but it is often more briefly referred to merely as an *annuity.*

(2) *Deferred Annuity.*—Briefly, an annuity under which the payment begins after the expiration of a fixed number of years (or subsequent to

some event) is called a *deferred annuity.* Such an annuity providing a future income does not become an *annuity in possession,* in a strict sense, until the first payment is due the annuitant. An annuity that is "entered upon" at the end of the specified years in the waiting period if the annuitant survives and that is payable for the remainder of the life of the annuitant is called a *deferred life annuity.*

A deferred annuity may be issued with the first and successive payments due at the *end* of each annuity interval after the annuity is entered upon. Such an annuity is deferred not only until the termination of the specified number of years in the deferment period but also until the end of the payment interval. For example, if such a life annuity of the annual payment plan is deferred ten years, the first payment is due at the termination of the eleventh year (ten years plus the one year in the payment interval) from the date of the contract if the annuitant is then alive. After the termination of the deferment period, such an annuity becomes an ordinary annuity.

If deferred annuities are issued with payments falling due at the beginning, rather than at the end, of each annuity interval after the annuity is entered upon, they are *deferred annuities-due.* If such an annuity is deferred ten years, the first income is payable to the annuitant after the termination of ten years, or at the beginning of the eleventh year from the contract anniversary if the annuitant is still living.

Although there are a great many different kinds of simple deferred life annuity contracts in common use today, it appears that the more complex and adjustable deferred annuities known as *retirement annuities* are gaining in popularity. Under a retirement annuity the deferred period selected at the issuance of the contract is a tentative maturity date, and the annuitant, on or before the end of this deferred period, may elect to have an annuity commence earlier or later, with a corresponding change in the amount of the income.

In addition to the deferred annuity that becomes payable to the annuitant for the remainder of his life after the annuity is entered upon, there may be a deferred *temporary life* annuity promising that after the waiting period the income becomes payable for not more than a specified number of years during the life of the annuitant.

A deferred annuity contingent upon the duration of two or more joint lives and the life of the last survivor is known as a *deferred joint life and survivorship annuity.* At the termination of the deferred period, such an annuity is payable if any of the annuitants have survived; thereafter it is payable until the death of the last survivor. An annuity that becomes payable after a specified period subject to the continuance of *all* the lives involved and that ceases upon the failure of the first life is called a *deferred joint life annuity.*

Another general type of deferred annuity is one under which the annuity is entered upon by the annuitant only after the occurrence of some event, such as the death of a person. In the usual *survivorship* or *reversionary annuity,* for example, the annuity does not become payable to the annuitant (beneficiary) until the death of the purchaser (nominator, insured). Under such a contract the annuitant does not receive any income unless he survives the insured.

There are numerous possible variations of survivorship annuities, such as one payable to the beneficiary (the

annuitant) after the death of the insured if both the insured and the beneficiary have survived a specified number of years; or one only payable to the annuitant at the end of a specified number of years provided the death of the insured occurs before a certain time. Furthermore, if a survivorship annuity is deferred a definite number of years after the death of the insured, it is a *deferred survivorship annuity*. If the annuity income to the beneficiary is payable after the death of the insured with no payment to be made after the expiration of a certain number of years, it is a *temporary reversionary annuity*.

In some instances, although not in common practice, a survivorship annuity may be payable to the annuitant in the event of the death of either of two named persons, such as the death of the son or the daughter. It is possible for the condition of survivorship to be contingent upon the death of two persons, such as the death of both the son and the daughter. This is a simple *survivorship annuity* because there is no stipulation as to the order of the survivorship except that the annuitant is to be the last survivor.

A *compound survivorship annuity*, however, is one involving a compound condition of survivorship before the annuity becomes payable. For example, assume an annuity payable to the annuitant after the death of the survivor of the daughter and the son only if the daughter is the survivor of the son. The annuitant's coming into possession of such an annuity is contingent upon the happening of the double event—the death of the son before the daughter followed by the death of the daughter before the annuitant.

3. Apportionable to Date of Death. With reference to whether an annuity is apportionable to date of death of the annuitant, annuity contracts may be divided into two groups—complete annuities and curtate annuities.

A. COMPLETE ANNUITY.—An annuity policy that provides for a proportional payment of the regular income to be made to the estate at the death of the annuitant is called a *complete annuity* or an *apportionable annuity*. For example, under a complete annuity of the semiannual payment plan it may be agreed, in addition to providing the definite income to the annuitant at the end of each six months the annuitant survives, that a payment will be made to the estate upon the death of the annuitant of a sum proportionate to the time elapsed since the date of the last income payment and the date of death. In general, it may be said that on the average the value of a complete annuity is approximately greater than a similar annuity which is nonapportionable by the value of about one half of an installment due the annuitant at the time of death.

The pro rata payment to date of the death of the annuitant is not applicable to an annuity-due. Under such an agreement each payment becomes payable at the commencement of each interval that the annuitant lives to enter upon; therefore, every payment made is for a succeeding income period.

B. CURTATE ANNUITY.—An annuity that is nonapportionable, that is, one that does not promise to the estate of the annuitant a pro rata payment of the income to the date of the death of the annuitant is known as a *curtate annuity*. Such an annuity may become a complete annuity if an agreement is added to the contract for the payment to the estate of a proportionate part of the

payment to the moment of the death of the annuitant. The usual life annuity contract issued in the United States does not generally promise to the estate of the annuitant a proportional payment of the income to the date of the annuitant's death; but in some instances an annuity may be made apportionable upon the payment of an extra charge.

4. Relative Size of Income Payments. Annuities may be grouped with reference to the relative size of the income payments becoming due to the annuitant at the various successive intervals, whether they are decreasing, increasing, or equal.

Briefly, a *decreasing annuity* is one under which the payments are decreasing by arithmetical or geometrical progression; an *increasing annuity* is one under which the payments are increasing by arithmetical or geometrical progression. Increasing and decreasing annuities, for example, may involve rather intricate complexities, and there may be various possible types: (1) the payments may increase a certain amount each year for the entire life of the annuitant; (2) the payments may increase or decrease a certain amount each year for a certain period, from which time they may be uniform at that amount for the life of the annuitant; or (3) the payments under temporary life annuities may be issued with each payment up to the last of the limited payments increasing or decreasing a certain sum. The amount of the interval increase or decrease of the income payment may be different from the amount of the first payments.

The customary life annuity, however, provides *equal* payments of a specified number of dollars to the annuitant upon the first payment date and each successive interval during the term of the contract.

Payment of income benefit. *See* Disability benefits.

Payment of premium. In general, unless some other arrangement is made, the payment of a consideration is necessary to the completion of an insurance contract. Unless specifically provided, however, the actual prepayment (in cash or its equal) is not necessary to the validity of the completion of the contract. It has been held that the company may extend credit for the premium and make the contract binding without actual payment. The authorized agent may give credit or he may pay the first premium to the company from his accounts. Policies may be bound by the company accepting the insured's note for the first premium and remain in force until the note becomes due, even though the policy requires the premium to be paid before the contract becomes effective.

Provisions either in the application or the policy requiring payment before completion of the contract have been held enforceable. Furthermore, in life policies stipulating either in the application or in the policy that the payment of first premium while the insured is in good health is essential to the completion of the contract, such payment has been held a condition precedent to the liability of the insurer.

It has been held that the mailing by the applicant of a letter containing a check (provided it is backed by funds) for the premium constitutes a payment. Premiums may be paid by persons other than the insured or the beneficiary, in life insurance. It has been held as a general principle that the delivery of a policy of life or accident insurance and its possession by the insured (or his beneficiary, after his death) is prima-facie evidence of payment subject to proof to contrary.

The payment of the first premium to a duly authorized agent of the company who is to deliver the policy to the insured usually completes the agreement or contract. In such a case, the company is bound whether or not the agent sends the money to the insurer before a loss. Also, subject to circumstances, an insurance company is liable where first premiums are paid to agents who never send the money to the insurer, provided payments are made to persons authorized to receive them.

Most policies contain a provision regarding the payment of premiums of which the following is typical:

All premiums after the first are payable on or before their due date at the Home Office of the Company or to a duly authorized Cashier of the Company, but only in exchange for the Company's official premium receipt signed by the President, the Executive Vice-President, a Vice-President, the Treasurer or a Secretary of the Company, and countersigned by the person receiving the premium. No person has any authority to collect a premium unless he then holds said official premium receipt. With the approval of the Company the premium may be made payable annually, semi-annually or quarterly in advance at the Company's respective premium rates for such modes of payment, upon the written request of the Insured. The payment of the premium shall not maintain this Policy in force beyond the date when the next payment becomes due, except as to the benefits provided for herein in event of default in payment of premium.

Payments to policyholders. The two most important payments of life insurance companies are payments for operating expenses and payments to policyholders. The sums paid or credited to policyholders or beneficiaries may be seen from the following items, which vary, of course, as between different companies:

Matured endowments	$5,927,862.46
Death claims	9,856,628.05
Disability and annuity payments	2,807,609.12
Surrender values	2,656,469.90
Surplus distributed to policy owners (dividends)	3,671,987.23
Payments under supplementary contracts	4,962,337.04
Dividends originally left with the Company withdrawn during year	410,785.83

Payor benefit. The "payor" provision in a juvenile policy provides that should the parent be taken by death or become totally and permanently disabled prior to a stipulated time the premiums due thereafter under the juvenile policy will be waived and the amount of insurance for which it is in force will be continued. Payor insurance requires an extra premium. *See* Juvenile insurance.

Payroll deduction plan. *See* Salary savings insurance.

Pension fund. Briefly, a pension is a certain sum given by the government or a private institution to a person or to those who represent him for valuable services performed by him. Pension funds of one kind or another may be public or private. Some of the best-known public pension plans are those for soldiers and sailors, teachers, policemen and firemen, government employees, and old age pensions. Pension plans may be contributory or noncontributory, depending on whether or not the pensioner contributes anything to the grantor of the pension.

Some of the important factors to consider in a pension fund operation are: (1) kind of fund; (2) individuals covered; (3) payments and benefits provided; (4) withdrawal privileges; (5) means of financing and paying expenses; (6) methods of investing funds; (7) administration and control. *See* Endowment insurance; Group pensions; Social security.

Percentage method. *See* Contribution plan.

Period for delivery. Most companies have rules for the delivery of the policy to the insured. The time from the date of issue which is allowed for the delivery of the policy very often depends upon the type of initial premium payment. The following schedule shows the time allowed for delivery:

Annual premium	sixty days
Semi-annual premium	sixty days
Quarterly installment	thirty days
Monthly installment	fifteen days
Single premium	fifteen days
Interim term premium	fifteen days
Pro rata premium	fifteen days

Period of grace. *See* Grace period.

Perpetual annuity. If the annuities are payable for an unlimited period, continuing to beneficiaries and heirs or specified successors forever without time limit, they are called *perpetuities* or *annuities in perpetuity*. In order to make an annuity perpetual the general rule is that there must be *express* words to such effect or such *intention* must clearly appear in the contract. The annual allowances in the case of perpetual annuities represent interest, in contrast to the annual payments under ordinary life annuities which come from principal and interest. Such perpetual annuities are less common than life annuities. *See* Annuities classified; Life annuities; Payment of annuity income.

Perpetuities. The common law "rule against perpetuities" restricts the length of time that settlements may be made under life insurance policies. Under this rule the inalienable settlement of property for a longer period than the duration of lives in being at the date of settlement or the date of the policy (the point of time is debatable) and a further period of 21 years is forbidden. *See* Annuities classified.

Permanent policy. In some cases, policies are issued as permanent policies, being contracts from year to year until ending by notice from one of the parties. The principal difference between a permanent policy and an annual policy is that the annual contract is renewed each year at the option of the insurance company, whereas the permanent policy is kept up for a particular period on the life of the insured by the payment of renewal premiums. Whole life or ordinary life insurance policies are permanent policies so long as the assured pays his premiums. The same is true of noncancelable health or disability policies. *See* Continuous policy.

Persistency of premium payment. Factors that enter into persistency of premium payments are general economic conditions, personal contract of agents, premium payment methods, adjustment of policies to needs of insured, and the cost of the insurance. *See* Lapses; Terminations.

Personal history. This is a factor which is considered in the application for life insurance. The history called for here is a record of illnesses or impairments. Most company manuals contain a list of impairments that enter into the personal history of the risk.

Person proposed. *See* Applicant.

Placed policy. A placed policy is one that is written, issued, and accepted by the insured. If the policy is "not taken" by the applicant, it cannot be placed, and must be returned for cancellation. If a "not taken" policy is subsequently "reissued" and accepted by the applicant, it becomes a placed policy. Policies may be placed as applied for or placed with changes. *See* Not taken policies.

Plan of policy. The plan of the policy, that is, term plan, life expectancy plan, whole life, limited pay, or endowment—or if payments are to be in a lump sum or installments—should always be described in full. Initials and abbreviations should be avoided. The agent should always be careful to specify whether the policy is to be issued with or without disability and double indemnity benefits. It should also be indicated whether the policy is to be issued with waiver of premium disability or combined waiver of premium and income disability benefits. The premium entered in the application should include the extra premium for disability and double indemnity benefits if such benefits are desired. Failure to observe such rules will cause delay in the issuing of the policy. *See* Alternate policy.

Policy. A written contract of insurance between the policyholder and the company is called a *policy* or policy of insurance. It is the written instrument by which the agreement between the parties is evidenced. The word *policy* is derived from the Italian *polizza,* which means contract. The derivation of this Italian word is probably from the Latin *pollicitatia,* or perhaps from *polypticum,* which means a folded writing. According to Webster, *polizza* is from the Medieval Latin *apodixa,* from the Greek *apodeixis,* meaning "a showing forth." *See* Insurance contract.

Policy analysis. A written synopsis and interpretation of an insurance policy is often called a *policy analysis.* Such an analysis might include, among other things, statements of policy equities, termination values, conversion benefits, settlement options, net costs, and variable uses of the protection. A comparative summary of policies in relation to existing hazards is also known as a policy analysis.

Policy anniversary. The anniversary of the date of issue of the policy, unless otherwise specified in the policy, is known as the *policy anniversary.* In ordinary life insurance, premiums and other policy accounts are figured from the policy anniversary.

Policy changes. *See* Changes in policy.

Policy claims. Many policies contain a provision dealing with the procedure for claim payments. The following policy clause is typical of these provisions:

> Proofs of death or application for any other settlement under this policy must be furnished to the Company at its Home Office. All claims shall be payable at the Home Office of the Company and the surrender of this policy will be required in any settlement thereof. No action shall be brought against the Company under this policy unless commenced within six years from the time when the cause of action accrues.

If the policy does not contain a provision on policy claims, or even when it does, the companies have established rules for the payment of claims. The following is a sample of the usual company instructions to agents on policy claims:

> All claims are payable by the terms of the policies, or under the rules of the Company, at the Home Office, but, for the convenience of the beneficiaries, the Company will ordinarily, on request, pay claims under matured policies, or death claims, or cash values under surrendered policies, through the nearest agent, by the Company's check to the order of the person entitled thereto.
>
> The attention of agents desiring prompt payment of death losses is called to the fact that the more specific the information furnished in the report of death, and the more accurate the proofs of death, the sooner the Company will be enabled to make the payment.

All affidavits required by the Company must be made before a Notary Public or other officer empowered by law to administer oaths.

Policy conditions. This term is used to describe the provisions contained in the policy contract either in the form of the printed conditions, or those that may be typed in or added by rider or endorsement. Most policy conditions may be classified into five groups: (1) promises of the company; (2) obligations assumed by the policyholder; (3) rights of the company; (4) rights of the insured; and (5) restrictions or exclusions of the policy. *See* Conditions of policy.

Policy dividend. The share of a policyholder in the divisible surplus or profits of the insurance company is called the *dividend.* Dividends are apportioned either in cash, a reduction in premium payments, or additional insurance. *See* Participating insurance.

Policy exhibit. This is a section required in the annual statement of life insurance companies. The following facts are given in the policy exhibit: (1) the number and amount of policies in force; (2) increases and decreases during the year; (3) numbers and amounts of policies in force at the end of the year in which the statement is made. Separate exhibits are required for industrial and group policies.

Policyholder's fund. Sometimes the earned premium reserve is called the *policyholder's fund.* Again, that portion of the surplus which is to be distributed to the policyholder as a dividend is called the *policyholder's fund. See* Participating insurance.

Policy loans. The insured may borrow on the policy on the assignment of the policy to the company. Most policies contain a provision governing the granting of loans of which the following is representative:

After three full years' premiums have been paid hereon, and while this policy is in full force and effect, on the sole security of this policy properly assigned, the Company will loan at the interest rate of five per cent (5%) per annum, payable in advance (which interest if not paid annually shall be added to the principal and bear the same rate of interest), any sum not in excess of the surrender value of this policy, deducting therefrom interest in advance to the end of the current insurance year and all existing indebtedness to the Company hereon. Non-payment of the loan or interest shall not void this policy until the total indebtedness equals or exceeds the surrender value hereunder nor until one month after the Company has mailed notice of such termination to the Insured and assignee of record, if any, to the last known address on record at the Home Office. The Company may defer granting any loan for a period not exceeding ninety days after application is made, unless the loan shall be for the sole purpose of payment of premiums on policies in this Company.

Tables are inserted in the policies which show the cash or loan values at the end of specified years. These values will vary with the kind of policy. Loan values are larger on the higher premium policies such as short limited-pay contracts and endowment policies. The following table shows the cash or loan value on a nonparticipating ordinary life policy issued at age 35 for $1,000 of insurance.

At End of Policy Year	Cash or Loan Value	At End of Policy Year	Cash or Loan Value
2......	$ 3	13......	$187
3	15	14......	207
4......	24	15......	226
5	41	16......	250
6......	58	17......	275
7......	76	18......	300
8......	94	19......	325
9......	112	20	350
10......	130	25......	445
11......	149	30	536
12......	168		

It is necessary for the insurance company to charge interest on a policy or premium loan because a company's legal reserves are computed upon the definite assumption that such reserves are increased by interest of an assumed amount. If the insured borrows the money, the insurance company has no chance to invest the money elsewhere. Consequently, the policyholder must pay the interest. In most states the maximum interest that the company may charge is six per cent, but the companies may charge a lower interest rate.

Policy not taken. A policy not taken is one which has been issued to the assured on approval or otherwise, and upon which no premium has been paid. Such a policy is finally rejected by the assured and never attaches, for the first premium has not been paid; hence it is termed *not taken.* It should be distinguished from a lapsed policy or a policy that is canceled. *See* Not taken policies.

Policy numbers. *See* Alternate policy.

Policy provisions. *See* Policy conditions; Conditions of policies.

Policy receipt. This is a receipt which the agent obtains from the insured when he delivers a policy. The insured places his signature on a document often called "Receipt of Insured for Policy."

Policy term. Different policies run for various periods. A one-year term policy ends at the year. A whole life policy runs until the death of the insured; it is sometimes matured at age 96 under the operation of the American Experience Table. An endowment policy matures at the end of the endowment period or is payable at the prior death of the insured.

Policy value. In life insurance policies, the surrender value may be used at the option of the owner of the policy in any one of three ways, all of equal value, as set forth in the tables of values in the policy. These options are also known as policy equities or nonforfeiture values. The principal values are: (1) a cash surrender value; (2) paid-up insurance; (3) extended term insurance. A policy loan value and an automatic premium loan value are also commonly available and depend on these policy values. *See* Nonforfeiture options.

Policy year. The year beginning with the date of the issue of the policy or any anniversary thereof, unless otherwise specified in the policy, is known as the *policy year. See* Policy anniversary.

Population table. One of the sources of a mortality table is the statistics of population as shown in a census enumeration or a death registration. Since population statistics are usually based on all lives, that is, lives of all ages, such facts are not especially suitable for insurance mortality tables. *See* Mortality table; United States Life Tables.

Population trends. Significant changes are taking place in our population make-up that are likely to influence the future demand for annuities and life insurance as well as other services and commodities. It is interesting to note from the reports of the census that an appreciable shift is taking place in the age distribution of the people of the United States. Statistics compiled by the census indicate that the percentage of people in the older age classifications (45 and over) has increased with each census report. In 1900 the persons 45 years of age and over represented a little more than 17 per cent of the population; whereas in 1930 they composed nearly 23 per cent of the aggregate population. The number of individuals 60 years of age and over in the United States in 1900 was 5,072,-

445, or 6.8 per cent of the total population; by 1930 the number had increased to 8,064,462, or 8.6 per cent of the total population. The number increased to 15,393,000 in 1945, and it is estimated that it will increase to 31,308,000 by 1980, or 20 per cent of the total population. By 1980 over 57 million people out of a population of 153 million will be 50 years of age and over. Of special significance is the fact, as shown by the census figures, that the number of people in the United States 65 years of age and over increased approximately 32 per cent during the period between 1920 and 1930 and this rate will be cumulative during the next 25 years. The proportion of the older people will continue to increase, for we are a "nation of elders in the making."

Dr. Louis I. Dublin, Vice-President of the Metropolitan Life Insurance Company, said recently in the *New Outlook:* "There will be a continued and marked drop in the proportion of young people and a corresponding increase in the number of older persons. In 1930 those under 20 constituted 38.8% of the population; those over 50, 17.1%. When we shall have arrived at a stationary populaiton, the proportion of persons under 20 will be approximately 26%, and of those over 50 years, 35%. We shall then give every appearance, not of youth but of age."

Post-mortem dividend. Dividends paid to the beneficiary or the estate of the insured after his or her death are often called *post-mortem dividends.* A dividend that is earned between the last policy anniversary and the date of death and is added to the proceeds of the policy is a post-mortem dividend.

Post-mortem examination. Under the additional accidental death benefit provided in connection with life insurance by some companies, there is a provision that the company shall, before payment, have the right and opportunity to examine the body, and to make an autopsy unless prohibited by law.

Powers of agent. *See* Agent's power to waive policy provisions.

Practical premium. In theory, since mortality is the basis of premiums, the calculation of premium should show variations not on an age change of a year but on some much more frequent interval. The expenses involved in such a close differentiation in the mortality risk would not make such a premium practical. Sometimes the level premium is said to be more "practical" from the viewpoint of the insured than either a single premium or the natural premium. Few people can afford to pay the single premium. Most people find the step-rate premium too high at the older ages. A more exact premium in terms of decimal places is used in place of a "practical premium," which is computed just roughly.

Pre-dating. *See* Antedating.

Preferred rating. This term refers to a risk who is rated higher than standard. Many companies restrict certain types of policies, as well as the amount of insurance written, to select or preferred risks. *See* Selection of risks.

Preferred risks. *See* Selection of risks.

Preliminary application. In doubtful cases the agent is instructed to use a preliminary application. This preliminary inquiry blank is then sent to the home office, and if the risk appears acceptable a regular application is given the applicant. Cases that call for a preliminary application are of the following kinds:

(a) Risks who have been declined, postponed, rated or restricted as to

plan or amount by any company within five years.

(b) Female risks over age 50.

(c) Persons engaged in an occupation shown in the occupational manual for "Special Consideration" by the home office.

Preliminary survey. *See* Preliminary application.

Preliminary term insurance. In the practice of life insurance, a policy which provides temporary insurance for a short time (usually less than one year) so that a regular policy may start at some stipulated future date, is called *preliminary term insurance.* A fractional premium is charged for such temporary forms of protection based upon the natural premium for the age at the time the policy is issued. *See* Interim term.

Preliminary term plan. Under the principle of the level premium system, a reserve should be built up on the policy in the first year, and for several years thereafter, because the premium charged is in excess of the actual mortality cost. However, a problem confronts the companies because the expenses for the first year, under the prevailing commission system, are high. To meet both expenses and reserve requirements poses a dilemma that must be solved in some manner.

One answer to this problem is to set up no reserve for the first year, or a smaller reserve for the first year, and then make up the difference later on. If no reserve is credited in the first year, the system is called the *full preliminary term reserve system.* This is the same thing as treating the policy as term insurance for the first year under which only mortality cost is figured and no reserve is allowed. The policy then begins as life insurance on the level premium system after the first year. This treatment of the problem results in the use of the term *preliminary term* for the first year. When this plan is used, the policy usually states this fact. If the preliminary term plan is not allowed under the valuation standards of the state, some modification of the preliminary term system is permitted. *See* Illinois Standard; Ohio Standard; Valuation standards.

Premature death. Death, or the economic consequences of death, is what the life insurance policy is intended to furnish protection against to the beneficiary. At any given age, a person has a number of years which, on the average, he may be expected to live, according to a given mortality table. If death occurs before this expectancy it is often called *premature death.* *See* Expectation of life.

Premium. The consideration or money the insurer receives for the assumption of the liability or the risk or hazard is known as the *premium.*

Premium rates under life insurance policies for standard lives are taken at the age nearest birthday of the proposed insured (usually the applicant) at the date as of which the policy is to take effect. They apply pro rata regardless of the amount of insurance; for example, the premium for a policy of $100,000 is one hundred times the premium for a policy of $1,000.

The maximum number of premiums payable under a life paid-up at age 60, 65, or 85 policy is found by subtracting the age as of which the policy is issued from 60, 65, or 85, as the case may be. For example: under a life paid-up at age 65 policy issued at age 30, the number of years' premiums is limited to 35.

Under endowments maturing at a specified age (i.e., 50, 55, 60, 65, or 85), the number of years' premiums and the endowment period are found by deducting the age at issue from

the age at maturity. For example: under an endowment issued at age 30 and maturing at age 65, the endowment period is 35 years and the number of years' premiums payable is limited to 35.

Rates for policies of life insurance on standard lives are shown in the company rate manuals.

Premiums may be paid annually, semiannually, quarterly, or monthly. The advantages to the agent to have the premium on a yearly basis are: (1) commissions are received earlier; (2) there are less loss and annoyance; and (3) lapse rate is much lower on the yearly premium basis. The following rules are used by some companies for figuring less than the annual premium:

1. Semiannually add 4% to the annual premium and divide by 2.

2. Quarterly add 6% to yearly premium and divide by 4. Always compute the semiannual and quarterly premiums for $1,000 of insurance to nearest cent, using the cent above in case of half cent; then multiply by amount of insurance.

3. To obtain the monthly premium, divide the quarterly premium by 3.

Premium basis. The basis of the premium in ordinary life insurance is on a $1,000 policy on the yearly basis. In industrial life insurance the premium basis is generally on a weekly plan in terms of multiples of five cents. Group life insurance is written for a premium that is on the yearly renewable term basis.

Premium changes. Companies will usually change the mode of premium payment from annual to semiannual, quarterly, or monthly. It is usually desirable that changes in the plan of premium payments be made effective on the anniversary date of the policy. *See* Premium.

Premium deposit fund. Upon request of a policyholder, some companies will accept deposit funds for the purpose of paying future premiums as they become due. Such a fund enables the policyholder to take care of premiums by starting a savings account with the company and making payments in any amount of five dollars or over whenever he has the money to spare. This fund helps to safeguard premiums against adversity, for the fund is usually drawn on automatically to pay the premium and prevent the policy from lapsing. Withdrawals are permitted at any time except in certain states where the law prohibits such withdrawals. *See* Automatic premium loan.

Premium extension agreement. After a first note is taken, a life insurance company may take a note for the premium after the first. Such a note is called a premium extension agreement. *See* Cognovit note.

Premium income. The two most important sources of income for a life insurance company are from premiums and returns from investments. Premium income is by far the largest, and in many companies is sufficient to pay all death claims.

Premium loan. *See* Automatic premium loan.

Premium note. *See* Notes to agents.

Premium payment. Usually, insurance policies written for one year are issued for the consideration of the full premium for the entire policy year, being due and payable at the beginning of the policy term. In some cases, however, only an estimated premium can be paid at the inception of the policy. For example, in workmen's compensation insurance, the premium depends upon the payroll and an adjustment of this advance premium must be made at the end of the policy year upon the basis of the earned premium. In some cases

where a policy is issued providing for the monthly adjustment of the premium, a quarterly adjustment, or a semiannual adjustment of the premium, only a percentage of the total premium may be required at the issuance of the contract.

The insurance policy, however, does not state that the premium has been paid. The prepayment of the premium is not generally so strictly required as a condition to the validity of a fire or marine insurance contract as in the case of life insurance. In some cases—in fire insurance, for example—the rule seems to be that, although the payment of the premium is expressly provided as the consideration for which the policy is issued, it is not always construed as a "condition precedent" to the operation of the contract and to any recovery on it. Companies may issue policies and extend credit for the premium, and, in such cases, it is said that the prepayment of the premium is not necessary to the validity of the policy if there was no demand for payment as a condition precedent. Provisions in a policy which specify that payment of the first premium is required before the contract is binding have been upheld.

The payment of the premium to the authorized agent of the company is held to be payment to the company. Likewise, though the broker is generally held to be the agent of the insured, if the policy is delivered to the broker by the company with the expectation of receiving the premium through him, he is considered the agent of the company to this extent and payment by the insured of premiums to the broker under such conditions is considered payment to the company. Also, there is sufficient compliance with the requirements of premium payment to make the company liable, if the agent extends the insured credit and advances the premium to the company. Payment by check does not constitute payment of the premium when there are no funds on deposit with which to meet the check.

The usual form of payment is in cash. Unless expressly stated in the policy, the agent does not have implied authority to waive the payment of premium in money or its equivalent. However, if the company consents, life insurance premiums do not need to be paid in cash, and its equal in services, such as advertising, may be accepted. Unless prohibited, a company may extend credit for life insurance premiums. Notes may be accepted by the company in payment for life insurance premiums. If notes of the assured are accepted, the insured is liable for the payment of the notes even though the notes provide for forfeiture in case of failure to pay. The company may hold the insured liable for the note if it wishes to continue the policy. However, if the note was given for insurance taken out as a result of fraudulent inducement on the part of the company, the policyholder may escape liability on the note if he proceeds to terminate the insurance immediately upon finding out the fraud.

The time specified in the policy as the date the premium is to be paid is an important factor, and, unless grace is allowed or an expressed or implied extension is made, the policy may be forfeited by failure to pay such premiums. Premiums should be sent in time to reach the company on or before the date they become due. An insurance company may extend the insured time for payments of premium before a default has occured. Under such an extension, the policy is not forfeited by nonpayment of premium until the end of such period of such extension. In

some cases, the custom and usage of the insurance company in this matter are taken into consideration when a question arises as to forfeiture for nonpayment of premium at the time required.

It has been held that, when a fire insurance company accepts without protest a part of the premium due on the policy, which is enough to maintain the risk at customary short rates beyond the time in which the loss occurs, it cannot deny liability on the grounds that the whole premium was not paid, even though the policy specifies that the policy is not in force until the full premium is paid. Part payment of premium on life insurance, unless otherwise agreed, does not maintain the policy for a proportionate period, as a usual rule.

Payment of premium after default may revive the policy, if it was only suspended by such default. Payment after a loss may not make the company liable by reviving the policy. In many cases, life insurance policies contain a provision that no more premiums are required if the insured becomes totally and permanently incapacitated and prevented from engaging in any occupation for profit. *See* Installment premium.

Premium receipt book. In ordinary life insurance the companies usually send individual receipts of premiums to the policyholder. In industrial life insurance, on the other hand, a single premium book may be used to record the receipt of premiums for a whole family.

Premium reduction policy. In some companies policies may be obtained on the premium reduction plan, usually available to only standard risks. Under this plan a premium somewhat larger than the corresponding level premium is paid during the first year. In the second and subsequent years the insured has the option either of paying a reduced premium or of continuing the somewhat larger initial premium. If the initial premium is paid after the first year, the difference between the initial and reduced premium in any year is applied to purchase a paid-up addition in the same way as a so-called dividend under a participating policy may be used for that purpose.

It is claimed by some companies that a premium reduction policy gives results that compare very favorably with those obtained from a participating policy. Moreover, this policy has the advantage of results that are absolutely guaranteed by the policy contract.

Premium as percentages. Some insurance agents, instead of quoting a premium rate to a prospect when the question of cost arises, express the premium as a percentage of the amount of insurance. A percentage figure, which may be effective in reducing sales resistance, can be very easily calculated. Determining the percentage is as easy as finding the rate for $10,000 and easier than determining the rate for $5,000. All you need to do is to take the premium quoted in the Rate Book *and move the decimal point one place to the left.* The agent should learn this easy method of finding the percentage for any particular premium as follows:

(a) Note the annual premium per $1,000.
Example—$30.10

(b) Move decimal point one place to the left. Omit dollar sign. Add % sign.
Thus—3.010%
or a little more than three per cent

This simple rule applies to all policies with an amount of insurance of $1,000. In order to arrive at the percentage in cases where the amount of insurance is greater than $1,000, it

will be necessary to divide the premium by the number of thousands in the amount of insurance before moving the decimal point one place to the left.

Another way of using premiums as percentages is to make up a table for various ages showing the premiums as percentages for different kinds of policies. The following table is a good illustration:

Age Nearest Birthday	Endowment at Age 85. With Waiver. Cost Per Annum of Sum Insured	20-Payment Life Cost % Per Annum of Sum Insured. With Waiver	20-Year Endowment. With Waiver. Cost % Per Annum of Sum Insured
15.....	1.4%	2.1%	4.4%
20.. ..	1.5	2.3	4.4
25.....	1.7	2.6	4.4
30.....	2.0	2.8	4.5
35.....	2.3	3.2	4.5
40.....	2.8	3.6	4.7
45.....	3.4	4.1	5.0
50.....	4.2	4.8	5.4

Premiums paid in advance. Premiums on life insurance and annuity contracts are due and payable annually in advance. This is stated in most policies and is a statutory requirement in most states.

When premiums are paid for more than one year in advance in addition to the current year on either life or annuity contracts, a life insurance company allows a discount of three and one-half per cent per annum on such advance premiums.

To determine the amount required to pay in advance premiums for any given number of years, multiply the annual premium by the factor opposite such number in the table that follows.

For example, amount required to pay in advance annual premium of \$100 for five years is 4.67308 × \$100, or \$467.31.

Total No. of Years Premiums to Be Paid	No. Times Annual Premium Required
1	1.00000
2	1.96618
3	2 89969
4	3.80164
5	4.67308
6	5.51505
7	6.32855
8	7.11454
9	7.87396
10	8.60769
11	9.31661
12	10.00155
13	10.66333
14	11.30274
15	11.92052
16	12.51741
17	13.09412
18	13.65132
19	14.18968
20	14.70984

Premium taxes. These are taxes that are levied by the various states on the gross direct premiums, including first-year and renewal premiums collected by the companies in the states in which they operate. In some states the tax applies only to foreign companies. Deductions are commonly allowed for reinsurance premiums and for dividends or refunds to policyholders. A considerable lack of uniformity, however, prevails on the deduction allowances. The rate of these taxes varies from one and one-half to four per cent, the average rate being about two per cent of the direct gross premium. At this rate these taxes are the largest tax burden imposed on the companies. Retaliatory or reciprocal provisions exist in these tax laws. Premium taxes, of course, are ultimately paid by the policyholders. In other words, these taxes increase the cost of life insurance to the policyholders.

Present date. The concept *present date* is used in connection with the calculation of the reserve on life insurance policies. The present value of future premiums to be received at

the present date (not the inception date of the policy) plus the sum of money the company has on hand to the credit of the policy—namely, the reserve—must equal the present value, as of the present date, of the future benefits to be provided in the contract. This is the basic idea involved in the value of the reserve and the cost of life insurance.

Present value. *See* Present worth.

Present worth. The concept *present worth,* sometimes called *present value,* is a mathematical one, and is often used in calculating premiums and payments in insurance. Reference to a compound discount table will show the present value of one dollar in any number of years at varying rates of interest. To illustrate: the present worth of $1 at three per cent due in one year is $0.97087379. Hence, the present worth of $1,260,000 is $1,223,300.98. *See* Compound discount.

Presumption of death. In the case of *Nepean v. Doe,* 1837, 2 M. and W. 894, English law held that when a person disappeared and was not heard of for seven years, the fact of death may be presumed. This is the law (common law) in the United States except where the states through a statute have adopted a shorter period. Arkansas and Indiana have fixed the time as five years for the purpose of estate administration. *See* Absence; Disappearance of insured.

Pretended assignment. This is not a real or bona-fide assignment but one made to evade insurable interest. An assignment made to raise money on a life insurance policy, which actually amounts to a sale of the policy or the policy equities, may be carried out under the pretense of an assignment. *See* Assignment of policy.

Price of life insurance. The chief element for which the price of life insurance is charged is mortality. For persons of the same age, other factors being the same, the price must be the same for each risk. If there is an equality of risk, in other words, the price must be equal. There can be no bargain prices in life insurance. As mortality increases with age, the price must be proportionately increased to correspond with this increase in mortality. The price of life insurance must be reasonable, fair, nondiscriminatory, and adequate. If the price is not adequate, the insurer will fail to get that for which he made a contract. The price of life insurance cannot fluctuate like the prices for wheat, tobacco, corn, or other marketable products, in relation to relatively short swings in supply and demand. Mortality is a much more stable commodity than iron, whisky, or most other tangible and intangible marketable items.

Primary beneficiary. Under a life insurance policy, more than one beneficiary may be named. Typical beneficiaries are known as primary or contingent beneficiaries. The clause naming a primary beneficiary frequently reads as follows: "The net sum payable on the death of the assured shall be paid to . . . . . . if living at the death of the insured, otherwise to the executors, administrators or assigns of the assured." If a second person, other than the primary beneficiary, is named in this clause, the other beneficiary is known as a secondary or contingent beneficiary. *See* Contingent beneficiary.

Principal and income policy. This policy provides not only for the payment of a single lump sum payment but also for the payment of an income. Under this plan the principal sum of the policy is kept intact by the company and the interest on this money is paid to the first beneficiary. In the event of the death of this pri-

mary beneficiary, the face value of the policy is paid in a lump sum to a second beneficiary or to the estate of the insured.

Principal sum. In life insurance, the principal sum is the total amount of the face value of the policy. In accident insurance, for example, it is a lump sum amount payable in whole or in part for the accidental loss of life, limbs, or time, as distinguished from a variable amount, known as a *weekly indemnity.* The principal sum may be made payable in one or more cash lump sum payments, in income payments, or in other types of installments.

Prior application. In many insurance applications, the applicant is asked if any company has rejected his application for insurance in the past. The following are examples of policies in which such questions are asked: messenger and office robbery policy, parcel post insurance, personal effects policy, paymaster robbery policy, and so forth. In life and accident insurance, for example, it is important to the insurer to determine whether or not any other company has considered the risk to be unfavorable. Such a fact is often regarded as material to the risk, and the policy has been held voided by false statements. The knowledge of the insured was considered important in some cases, but, in *Edington v. Aetna Life Ins. Co.,* 77 N. Y. 564, the rule apparently was that false statements regarding rejection of applications voided the policy, though innocently made.

Privilege of change. Many life insurance policies contain a provision that permits the policyholder to change his present policy to some other type. The procedure, conditions, and limitations on this privilege are stated in the following excerpt:

At any time before default in payment of premium, provided the Insured is then less than 55 years of age and has not become totally disabled at any time as defined in any provisions for Waiver of Premium Benefit contained herein, the Insured, without medical examination, may exchange this Policy for a new policy of the same face amount and amount of initial risk as this Policy on any Limited Payment Life or Endowment plan of insurance issued by the Company with a higher rate of premium at the time this Policy took effect, provided all premiums for the new policy would not have fallen due before the date of exchange. The exchange shall be effective upon surrender of this Policy and the payment to the Company of the difference in premiums, with compound interest at six per cent per annum from the due date of each premium to the date of exchange, with proper adjustment for the difference between the dividends under the two plans of insurance.

With the approval of the Company and the furnishing of such requirements as the Company may consider necessary, the Insured may exchange this Policy for a new policy on any plan of insurance which was issued by the Company at the time this Policy took effect or for a policy of lesser amount.

Any new policy shall be without provisions for Double Indemnity Benefit or Waiver of Premium Benefit unless this Policy shall contain such provisions at the time of the exchange, in which event the new policy may, at the option of the Insured, contain the same provisions for Double Indemnity Benefit or Waiver of Premium Benefit, as the case may be, as are contained in similar policies issued by the Company at the time this Policy took effect. The new policy will take effect as of the effective date of this Policy and the premium will be at the rate which would have been charged if this Policy had been issued originally on the new basis.

Privilege of loans. *See* Automatic premium loan; Loans.

Probabilities. The theory of probabilities has played an important part in the development of life insurance and annuities.

During the seventeenth century, various mathematical studies and compound interest tables appeared which had some bearing on the advancement of annuity and insurance practices. Brief reference may be made to certain of the first pioneer researches that led toward more scientific annuity calculations, such as: (1) the notable work of Pascal on the theory of probabilities which was necessary to the calculation of life contingencies; (2) the valuable study of Fermat in the middle of the seventeenth century into the theory of probabilities; (3) the suggestion of Christian Huygens in his *Doctrine of Chances* (1658) that the doctrine of chances might be valuable in estimating life contingencies and also in measuring the value of life annuities; (4) the contemporary work of Francis Schooten on a similar subject; and (5) the life annuity tables of Mabbot in 1686.

Mention may be made of the "English Bills of Mortality," for they were early compilations of population statistics, and may be considered, in a way, as the predecessors of modern mortality tables. The "Bills of Mortality" were published in England at various irregular times from about the middle of the sixteenth century to 1836, recording the number of christenings of the Established Church and the number of burials. These bills were the basis of numerous investigations, and it is interesting to note an early effort to study and make deductions from these compilations of vital statistics by John Graunt in 1662.

One of the first to apply the doctrine of probabilities to the valuation of human life appears to have been John De Witt. At this time the Netherlands had been obtaining money to finance wars threatened against the Netherlands by the sale of life annuities based on "nine years' purchase" without regard to the age of the annuitant but generally on young lives. The task facing De Witt (Grand Pensionary) was to discover a safe selling price for life annuities. In contrast to the former guesswork basis, De Witt made observations of human mortality from the records of births and deaths from the different towns in Holland. In his report of 1671, he calculated the value of a life annuity at age three (four per cent interest) at 16 years' purchase. This notable report, however, received little notice until the British actuary, Frederick Hendricks, discovered it about 1851.

Some progress toward the development of more scientific principles for the calculation of annuity values resulted from the researches of Dr. Edmund Halley, the famous astronomer. As a basis for his report before the Royal Society in London in 1693, in calculating the value of annuities Halley applied the principle of probabilities and the theory of compound interest to a mortality table derived from the population records of Breslau in Silesia. The study covered the years 1687 to 1691 inclusive, and the records gave the age at death and sex. Halley is regarded as one of the first not only to state principles upon which an approximately correct mortality table should be based but also to prepare a table and to indicate how it could be used to determine the value of life annuities. His method of calculating the value of life annuities was very tedious. The importance of Halley's contributions was not generally recognized by his contemporaries, for annuities were

underwritten, more or less, on a guesswork basis until the publication of the Northampton Table.

The originator of the tontine plan, Lorenzo Tonti, a Neopolitan by birth, had suggested as early as 1653 that a state loan (tontine) be used to restore the finances of France, but the first state tontine was not used there until 1689. It called for the collection of 14,000,000 livres to be secured by individual payments of 300 livres to the state, and a payment for life was to be given the purchasers for which a certain per cent of the total was to be used yearly. The loan purchasers were divided into classes according to age, and the entrants in the older ages secured higher interest. Each class was a closed group, and the survivors in each age group received yearly the pro rata amount of interest applicable to their group. The income secured from the tontine, therefore, increased with the advancing years of the survivors. The fund reverted to the state after the death of the last survivor. Seven years later a second tontine was employed by France.

The tontine idea spread to other countries even before the adoption of the first tontine by France. State schemes in the nature of tontines were resorted to in the Dutch city of Kampen (1670), in Amsterdam (1671), in Groningen (1671), in London (1674), in Brandenburg (1698), and in other jurisdictions on the continent. Far into the eighteenth century tontine loans were used by states, and private individuals also began to form tontines, particularly in France.

In general, these plans amounted to schemes for granting a form of life annuity in which the surviving annuitant in certain age groups profited by the early death of a member of that group. Regardless of criticisms that can be made of these plans, it may be said that some consideration was given to the probable duration of life, that they were based on the idea of association, and that these plans were valuable sources of mortality statistics for later studies.

In an attempt to secure money to carry on war against France, the English government in 1692 tried to raise a million sterling by the issue of life annuities, guaranteeing 14 per cent during the lifetime of the purchaser without limitation of age. Granting life annuities on such terms was equal to calculating the value of an annuity on a single life at seven years' purchase. Even on such favorable terms the entire million was not secured. In order to make up the deficit another act was passed in 1693 granting life annuities on the same terms. However, Halley's calculations had indicated that life-interests of young annuitants were worth up to 13 years' purchase or almost twice the government charge. An annuity act mentioning an annuity on more than one life was passed in 1694, under which money was borrowed by the government on life annuities without restriction to age at the rate of 14 per cent for one life, 12 per cent for two lives, and 10 per cent for three lives. These early plans of the English government drew much attention to life annuity transactions, and many novel schemes were formulated during these years.

In the act of 1703, life annuities were again offered, but on less favorable terms to the purchasers: one life for 9 years' purchase, two lives at 11 years' purchase, and three lives at 12 years' purchase. Forty-three years later an issue of government life annuities, also on an unscientific basis and without restriction as to age, was purchased principally by the Dutch, who selected children and especially young girls, evidently having taken

advantage of the studies of their countryman, Kersseboom.

Other attempts of the English government to obtain money by transactions involving the duration of human life included various tontine investments, especially those employed in the years 1765 to 1789.

Among the notable scientific researches appearing during the first half of the eighteenth century may be mentioned the following: (1) *Doctrine of Chances*, by Abraham De Moivre in 1718, and his greater work, *Annuities on Lives,* in which he presented a shorter method for the calculations made by Halley; (2) the mortality tables of W. Kersseboom (1738 to 1742), derived from observations of many thousands of annuitants in Holland; (3) the tables of Nikolaus van Struyk (1740), taken from the registers of Amsterdam for about 35 years; (4) the life tables by John Peter Süssmilch in 1741; (5) the very explicit treatise, *Doctrines of Annuities and Reversions,* by Thomas Simpson in 1742; (6) mortality tables by Déparcieux in 1746, based on the statistics of French tontines and certain religious houses in France; and (7) a few years later the mathematical works of James Dodson of London. Much scientific advancement was made from this period on, and no doubt the availability of mortality records was of great assistance.

The compilation by Dr. Price, a Unitarian minister, of the Northampton Table of Mortality was a real step toward a more correct basis for life insurance and also for annuities, although the table showed excessive mortality. The registered deaths in two parishes in the town of Northampton, England, for the 46 years up to 1780 were used in his second table (known as the Northampton Table), which was published in 1783. It appears that the mortality of these two parishes was higher than the average for other towns. No census enumeration was included, and, of course, death records alone are not a satisfactory basis for the calculation of annuity tables. The Northampton Table was extensively used. It was adopted by the Equitable, and the company had a very profitable experience on its life insurance from this table inasmuch as it figured the term of life average low. On annuities, however, the companies and the government had an unfavorable experience from this table.

In addition to the calculation of the Northampton Table, Dr. Price also compiled other mortality tables, including the Chester Tables. These tables were calculated from the records of births and deaths of Chester, England, and the mortality rates for males and females were given separately. The mortality assumption of these tables was comparatively accurate for that time, but they were never used in general practice although Dr. Price recommended the use of this table with its mortality experience lower than that of the Northampton Table.

Passing mention may be made of a few of the other scientific studies published during this period, such as: (1) in 1778 the table of Charles Brand, registrar of the Amicable Society, utilizing the mortality experience of that society for 72 years; (2) about eight years later the treatise of John Nicholas Tetens on life annuities; and (3) early in the nineteenth century the study on life annuities by Francis Bailey.

In 1815 Joshua Milne, actuary of the Sun Life Office of London, presented a scientific treatise containing the Carlisle Table of Mortality. This table was formed from the census of the population in 1780 and

the record of deaths from 1779 to 1787 inclusive of two parishes in Carlisle. Although prepared from rather meager records, this table was based upon more advanced principles than earlier tables, and was used to considerable extent.

Probability of dying. *See* Mortality tables; Probabilities.

Probability of living. *See* Mortality tables; Life contingency; Probability of survivorship.

Probability of survivorship. Tables are available which show the per cent of people at various ages that live to the end of a term of years. According to the American Experience Table of Mortality, the probability of survivorship is as follows at different ages:

Age	End of 10 Years	End of 15 Years	End of 20 Years	End of 25 Years	End of 30 Years	End of 35 Years
20	92.23	88.33	84.31	80.07	75.35	69.69
21	92.17	88.22	84.15	79.80	74.90	68.94
22	92.11	88.11	83.96	79.50	74.39	68.10
23	92.05	88.00	83 76	79.17	73.83	67.18
24	91.98	87.87	83.55	78.81	73.21	66.17
25	91.90	87.73	83.33	78.40	72.52	65.05
26	91.82	87.57	83.05	77.95	71.75	63.80
27	91.73	87.41	82.76	77.45	70.90	62.49
28	91.63	87.23	82.45	76.89	69.96	61.04
29	91.53	87.03	82.09	76.26	68.92	59.46
30	91.41	86.81	81.70	75.57	67.79	57.75
31	91.29	86.57	81.26	74.79	66.54	55.90
32	91.15	86.31	80.76	73.93	65.17	53.92
33	91.00	86.01	80.21	72.98	63.68	51.79
34	90.83	85.68	79.59	71.94	62.06	49.53
35	90.65	85.31	78.91	70.78	60.30	47.14
36	90.45	84.90	78.14	69.52	58.41	44.61
37	90.22	84.43	77 29	68.13	56.37	41.98
38	89.97	83.90	76.34	66.61	54.18	39.24
39	89.69	83.32	75.30	64.96	51.85	36.44
40	89.37	82.66	74.15	63.17	49.38	33.59
41	89.01	81.93	72.89	61.24	46.78	30.72
42	88.60	81.11	71.50	59.15	44.05	27.86
43	88.14	80.20	69.98	56.92	41.23	25.01
44	87.63	79.20	68.32	54.53	38.32	22.23
45	87.04	78.08	66.52	52.00	35.37	19.51
46	86.39	76.86	64.57	49.33	32.40	16.88
47	85.66	75.51	62.47	46.53	29.42	14.37
48	84.85	74.04	60.22	43.62	26.47	12.01
49	83.96	72.42	57.81	40.63	23.57	9.83
50	82.97	70.68	55.25	37.59	20.74	7.86
51	81.88	68.80	52.55	34.52	17.99	
52	80.69	66.76	49.72	31.44	15.36	
53	79.39	64.57	46.77	28.39	12.86	
54	77.97	62.23	43.74	25.37	10.59	
55	76.42	59.74	40.64	22.42	8.50	
56	74.74	57.09				
57	72.93	54.31				
58	70.97	51.40				
59	68.86	48.39				
60	66.59	45.30				

Probable lifetime (vie probable). The term *probable lifetime* refers to the length of time during which one half of the persons of a given age will continue to live. The way to ascertain the probable lifetime is to observe at what age in the mortality table beyond the stipulated age the number then living is reduced one half. A person aged 30, for example, has a probable lifetime of between 38 and 39 years. In examining the American Experience Table, it will be found that there are 43,133 persons living at age 68 and 40,890 living at age 69, whereas the number living at age 30 amounts to 85,890. This must be clearly distinguished from the so-called *expectancy of life.* In order to secure the probable lifetime, it is necessary first to divide the number living at any given age by two; and, second, to find by inspection at what age the number of survivors is equal to one half of those living at the age in question. Such a procedure involves division and inspection, whereas ascertaining the expectancy of life is a matter of addition and division. An examination of the following table shows the average period of life at any age according to different methods, and it will be noted that at some ages the probable lifetime differs materially from the expectancy of life.

AVERAGE PERIOD OF LIFE AT ANY AGE
(According to the American Table of Mortality)

Age	*Probable Life or Vie Probable*	*Most Probable After Lifetime*	*Expectation of Life*	*Median Lifetime*
0	47.67	.50	41.45	48.00
1	57.00	.50	47.94	47.50
2	58.64	.50	50.16	47.00
3	58.84	.50	50.91	46.50
4	58.67	69.00	51.23	46.00
5	58.21	68.00	51.13	45.50
6	57.61	67.00	50.83	45.00
7	56.94	66.00	50.41	44.50
8	56.21	65.00	49.90	44.00

Age	Probable Life or Vie Probable	Most Probable After Lifetime	Expectation of Life	Median Lifetime
9	55.44	64.00	49.33	43.50
10	54.65	63.00	48.72	43.00
11	53.85	62.00	48.09	42.50
12	53.05	61.00	47.45	42.00
13	52.23	60.00	46.80	41.50
14	51.42	59.00	46.16	41.00
15	50.61	58.00	45.51	40.50
16	49.79	57.00	44.85	40.00
17	48.98	56.00	44.10	39.50
18	48.15	55.00	43.53	39.00
19	47.33	54.00	42.87	38.50
20	46.50	53.00	42.20	38.00
21	45.68	52.00	41.53	37.50
22	44.85	51.00	40.85	37.00
23	44.03	50.00	40.17	36.50
24	43.19	49.00	39.49	36.00
25	42.36	48.00	38.81	35.50
26	41.53	47.00	38.12	35.00
27	40.69	46.00	37.43	34.50
28	39.84	45.00	36.73	34.00
29	39.02	44.00	36.03	33.50
30	38.18	43.00	35.33	33.00
31	37.34	42.00	34.63	32.50
32	36.51	41.00	33.92	32.00
33	35.67	40.00	33.21	31.50
34	34.83	39.00	32.50	31.00
35	33.99	38.00	31.78	30.50
36	33.15	37.00	31.07	30.00
37	32.31	36.00	30.35	29.50
38	31.47	35.00	29.63	29.00
39	30.63	34.00	28.90	28.50
40	29.79	33.00	28.18	28.00
41	28.96	32.00	27.45	27.50
42	28.12	31.00	26.72	27.00
43	27.28	30.00	25.99	26.50
44	26.45	29.00	25.27	26.00
45	25.62	28.00	24.54	25.50
46	24.79	27.00	23.81	25.00
47	23.97	26.00	23.08	24.50
48	23.15	25.00	22.35	24.00
49	22.33	24.00	21.63	23.50
50	21.52	23.00	20.91	23.00
51	20.72	22.00	20.20	22.50
52	19.92	21.00	19.49	22.00
53	19.13	20.00	18.79	21.50
54	18.35	19.00	18.09	21.00
55	17.58	18.00	17.40	20.50
56	16.82	17.00	16.72	20.00
57	16.08	16.00	16.05	19.50
58	15.34	15.00	15.39	19.00
59	14.61	14.00	14.74	18.50
60	13.88	13.00	14.10	18.00
61	13.15	12.00	13.47	17.50
62	12.54	11.00	12.86	17.00
63	11.89	10.00	12.26	16.50
64	11.25	9.00	11.67	16.00
65	10.63	8.00	11.10	15.50
66	10.03	7.00	10.54	15.00
67	9.46	6.00	10.00	14.50
68	8.90	5.00	9.47	14.00
69	8.37	4.00	8.97	13.50
70	7.86	3.00	8.48	13.00
71	7.38	2.00	8.00	12.50
72	6.91	1.00	7.55	12.00
73	6.48	.50	7.11	11.50
74	6.05	.50	6.68	11.00
75	5.65	.50	6 27	10.50
76	5.26	.50	5.88	10.00
77	4.87	.50	5.49	9.50
78	4.51	.50	5.11	9.00
79	4.16	.50	4.75	8.50
80	3.83	.50	4.39	8.00
81	3.52	.50	4.05	7.50
82	3.21	.50	3.71	7.00
83	2.92	.50	3.39	6.50
84	2.66	.50	3.08	6.00
85	2.43	.50	2.77	5.50
86	2.17	.50	2.47	5.00
87	1.82	.50	2.18	4.50
88	1.59	.50	1.01	4.00
89	1.38	.50	1.66	3.50
90	1.15	.50	1.42	3.00
91	.94	.50	1.19	2.50
92	.79	.50	.98	2.00
93	.68	.50	.80	1.50
94	.58	.50	.64	1.00
95	.50	.50	.50	.50
96	.00	.00	.00	.00

Proceeds at interest option. *See* Optional modes of settlement.

Proceeds of policy. By the *proceeds of a policy* is meant the amount due and payable when the contract matures by death or otherwise. The net value of the policy at death, surrender, or maturity, constitutes the proceeds of a policy.

Profits. The word *profit* as used in life insurance has a different meaning from that when the word is used in the usual commercial sense. If actual mortality is less than the assumed mortality, a profit is said to be made on mortality. If the interest earned exceeds the assumed rate, then a profit accrues from interest. When loading expenses are less than expected, a loading profit is made.

These gains from mortality, interest, and loading are the chief sources of the surplus in life insurance. If gains are paid to stockholders of a company, the word *profit* may be applied. When the gains are refunded to the policyholders, a *dividend* is the usual term applied to such a distribution. The report of the committee on the new mortality table has this to say about profits:

> The popular impression that insurance companies are receiving excessive profits as a result of the use of obsolete tables is entirely without foundation in fact. Reserves set aside by companies are not excessive, non-participating premiums are based on current experience tables, subject to adjustment on account of statutory requirements, and mortality gains of participating companies return to the policyholders as dividends. While the substitution of a new table will to some extent change the pattern of net costs, there is no evidence that such change in patterns will result either in increased or decreased surplus earnings of insurance companies in any significant amount.

Profit sharing. *See* Dividend payments.

Program idea. Under the term *program idea* is grouped what may be called a summary or bird's-eye view of a proposal of insurance to a prospect or client. In another sense, the program of insurance is made up of the objectives which the insured or prospect has in mind to accomplish. A program of life insurance for a man with a wife and one young child would include policies as follows: (1) a policy to take care of the expenses of the last illness and funeral costs payable in a lump sum to the widow; (2) an income policy to provide a monthly income for the widow; (3) an educational policy to take care of the educational needs of the child; (4) a guaranteed income or retirement policy for the insured himself; (5) an emergency fund policy; (6) a mortgage redemption policy.

Some companies have developed very elaborate surveys or programs for their agents to use. The extent of a program varies with the income and needs of the insured. Programming may be carried out to meet all of the following requirements: (1) family income; (2) income to a dependent father or mother; (3) savings plus protection for children; (4) retirement income; (5) mortgage protection; (6) pensions to servants; (7) funds for taxes; (8) bequests for individuals or institutions; (9) sinking funds for emergencies; and (10) business investment protection.

Some of the merits claimed for the program idea are: (1) that it greatly simplifies the salesman's task; (2) that it helps to clarify the client's ideas on the subject of insurance; (3) that it is a means by which the salesman can present a more effective sales talk; and (4) that it is the most scientific approach to insurance. Of course, a presentation of the program idea requires a considerable knowledge of insurance coverages as well as ability to analyze the insurance needs of the client.

Prohibited provisions. Three different situations exist in regard to the statutory control over life insurance policies. Some provisions of the policies are: (1) required; (2) permitted; and (3) prohibited. No less than three types of policy provisions are prohibited by many of the insurance codes: (1) a provision for forfeiture of the policy for failure to repay any loan on the policy or to pay interest on such loan while the total indebtedness on the policy is less than the loan value; (2) a provision limiting the time within which any action at law or in equity may be commenced to less than five years after the cause of action shall accrue; and (3) a pro-

vision for any mode of settlement at maturity of less value than the amount insured on the face of the policy plus dividend additions, if any, less any indebtedness to the company on the policy and less any premium that may by the terms of the policy be deducted.

Proof of age. Generally, proof of age is not required for life insurance, but proof of age may be submitted and admitted. If a misstatement of age occurs, and is discovered, the life insurance policy contains a provision for an adjustment because of error in age. The exact date of birth (giving the day, month, and year) must be stated in the application for an annuity.

In addition to this statement of the age of the annuitant, authentic proof of age is generally required. The rules of the companies may vary to some extent on this submission of evidence of age. Under immediate annuity contracts, proof of age usually must be submitted before the delivery of the contract. Under some retirement annuities, evidence of age is not required at the time the contract is issued but must be furnished before the income payments commence. The most satisfactory practice is to submit proof of age with the application whenever possible.

The instructions of the life insurance companies also vary somewhat regarding satisfactory evidence of age. The following records, arranged in the order of general acceptability, are customarily recognized as the best evidence of the exact age of the annuitant:

1. Copy of the official public register of birth from record made soon thereafter, giving date of birth, showing date when the record was made, and bearing certification by a public officer.

2. Copy of church or baptism certificate giving date of birth and date when record was made, bearing certification by a notary public.

3. Certified extract made by notary public from a family record of births (such as family Bible) containing an entry made soon after the time of birth, the notary stating by whom and at what time such entry was made and the date of publication of the book containing the record or its apparent age.

4. Certified copy of record taken from a life insurance policy issued several years previous, including name of the life insurance company, date of issue, number of policy, kind of policy, and date of birth or age of the applicant as stated in such policy. A declaration must be given that such policy has been personally inspected by the notary public, manager of the company, or agency cashier.

5. Certified copy of record taken from other available documents, issued several years previous, in which the age of the applicant was stated, such as school or college record, military record, fraternal organization record, election record, employment record, passport, naturalization papers, confirmation certificate, marriage certificate, marriage license, automobile driver's license, or hospital record.

6. Affidavit of reliable persons (giving their names and addresses) who have definite knowledge of the date of birth of the applicant. Usually, however, mere statements or affidavits as to the date of birth based entirely on memory, even from relatives, are not considered favorably by the life insurance companies.

7. Where none of the foregoing records are available, any other record or the best available evidence of the date of birth, accompanied by an accurate description of the extent of

such investigation and the reason no further evidence is available, should be sent to the company with the application. *See* Annuity.

Proof of continuance. The provisions relating to total and permanent disability require not only proof of disability but also proof of the continuance of such disability. The following is typical of this clause as found in disability provisions of today:

> After having approved proof of total and permanent disability, the Company may from time to time as it may deem necessary (but not oftener than once a year after the expiration of two years from the approval of proofs of disability) demand proof of the existence and continuance of such disability and a physical examination of the Applicant by an examiner appointed by the Company; and upon failure to furnish such proof or to permit such physical examination to be made or upon the Company being satisfied that such disability does not exist, the waiver of premiums by the Company shall cease. If thereafter the payment of premiums by the Applicant, or the Insured if of legal age, is not resumed, the liability of the Company under this policy shall cease unless otherwise provided in this policy.

Proof of death. Although it is necessary, to recovery on a policy of life insurance, to prove the fact of death, it may be shown by preponderance of evidence. Circumstantial evidence is sufficient. Death usually cannot be inferred from mere disappearance until after a number of years, for the facts and circumstances must be considered. For example, it was held that the insured was dead where the insured went to bathe in a lake and never returned, his clothes and money being on the shore, there being footsteps leading into the water, and there being proof that the lake was dangerous.

The question of the identity of the deceased with that of the insured may also arise. Where the identity is denied, the burden rests on the plaintiff to prove the identity.

Upon the death of a policyholder, statements are made out and sent to the company which are called *proofs of death.* Life and accident policies usually require that proof of death or injury be given to the company. It may be provided in some cases that no claim will be paid until the proofs have been furnished, the providing of such proofs amounting to a condition precedent in some cases where the contract specifies that the policy is forfeited by the failure to furnish such proofs within the time specified.

Where the policy allows the company (when not contrary to law) to demand an examination of the body after death, such demand generally must be made within a reasonable time after death and before burial.

The policy often states that proof of death must be given within a certain time, but this requirement may be modified where the state law specifies what time may be provided (for example, in Texas, it may not be less than 90 days). Generally, a delay beyond this time allowed, unless otherwise expressly provided for, will amount to a forfeiture of the policy.

In the case of the disappearance of the insured, proof of death does not have to be presented until the presumption of death is made because of seven years' unexplained absence.

The company may waive the furnishing of notice and proofs of death or injury or any mistakes in these statements. *See* Proof of age.

Pro rata assessment association. Pro rata assessment associations are usually defined as those associations or companies or corporations which operate on the plan of collecting assessments to pay benefits promised

when the contingency insured against arises and which place their membership in groups or circles for the purpose of assessment and collection of dues.

Pro rata premium. When a fractional or irregular part of the annual premium is used, the term *pro rata premium* describes this procedure. Usually the regular annual premium follows the granting of a pro rata premium. *See* Fractional premium; Interim term.

Prorate clause. It is possible for an insured, under income disability, to collect in company payments, if he insures in several companies, a monthly income in excess of what he actually earns. The danger of overinsurance exists in connection with disability income if the companies are not careful in their underwriting. Many companies limit the amount collectible as disability income to 80 per cent or two thirds of the insured's earned income.

In property insurance the "other insurance" provision of the policy permits a pro rata distribution of the proceeds and thus serves as a check on overinsurance. In a similar manner the "prorate clause" in the income disability provisions acts as a check against overinsurance because of permanent and total disability. This clause reduces the amount recoverable from all sources to a fixed (usually not over 80 per cent) of the insured's earned income prior to disability.

Prospective reserve. Prospective reserve is often called the *legal reserve* and is one method of calculating the reserve in life insurance. In brief, the prospective reserve is computed by obtaining the difference between the present value of the coverage and the present value of the future net premium yet to be paid. To express this same idea in another way, it may be said that, if the present value of all future premiums payments is deducted from the total of the net single premiums on all the policies at the attained ages, the prospective reserve is obtained.

The laws of the different states prescribe the mortality table and the maximum rate of interest that shall be used in calculating the reserve on the companies' policies. Such a requirement is called the *legal standard of valuation,* as indicated above, and the reserve computed by the legal standard is known as the *legal reserve,* which is the prospective reserve. Such a reserve is a test of solvency, because, when the reserve of an insurance company is impaired, that is to say, if the assets of the company are insufficient to cover its reserve liability, the insurance company is insolvent. It is a practice of the insurance departments of the states to value the business of life insurance at various intervals to ascertain whether or not the companies are maintaining adequate reserves. *See* Reserves; Retrospective reserve.

Prospects for annuities. Prospects for annuities are numerous. Annuities may be purchased by any person irrespective of age, sex, physical condition, occupation, residence, or race. In fact, any individual who has some money accumulated or who can save a few dollars every year during the income-producing years of life toward a future income may purchase some form of annuity. These contracts can be bought for small sums which provide proportionately as much income as annuities purchased by large sums. Annuities that provide retirement income are purchasable, then, on the pay-as-you-go plan, and this easy and convenient payment scheme makes annuities adaptable to the needs and circumstances of millions of people.

In a manner, the one essential to any individual's obtaining an annuity of any size, large or small, is the possession of sufficient capital with which to buy it, either by a lump sum payment or by annual or other installment payments over a period of years. Irrespective of other factors, persons with large amounts of available cash, investments, or property are good prospects for annuities. This general group includes those who have accumulated considerable capital by their own efforts, as well as those who have inherited large holdings or sums of money. Such persons are prospects for annuities even though they may believe that they have sufficient wealth to safeguard themselves against all possible contingencies of life. Individuals of great wealth are not so much interested in the large yield from an annuity (being able to purchase annuities of amounts more than sufficient to take care of their needs) as they are especially attracted by the *certainty* of the yield—the absolute provision of the stable income for life. Wealthy people generally select the single premium contracts in preference to installment contracts that require payments at recurring intervals.

Many of the best, as well as the more numerous, prospects are men and women with comparatively modest accumulations. Ownership of limited capital does not bring freedom from financial care and worry. A limited amount of capital does not allow proper diversification of investments. A loss in any of the investments results in a loss of that part of the income. There is a popular idea that annuities can only be purchased by comparatively well-to-do persons. However, a single premium annuity may be secured for as small an amount as $1,000 or in some cases by as small an amount as $500, and it will provide proportionately as much income as $10,000 deposited for a similar annuity.

Under the usual investment plan, individuals with limited capital must leave their capital intact; because if they encroach on the principal, its interest yield will be lessened as it becomes depleted and will, consequently, shrink with ever-increasing speed. Using the limited capital to augment the inadequate income from the usual investments will eventually eliminate not only the capital but also the income if the investor lives too long.

The particular appeal of an annuity to persons of limited resources is the relatively large return provided by the safe investment.

Individuals receiving large incomes are prospects for annuities even though they may have no great amount of capital accumulated. Where large incomes are enjoyed for an uncertain and possibly short period, it is most essential for some provision for the future to be made during these highly prosperous years. Where the income is very large, it is frequently the case that enough may be saved from current income to make repeated purchases of entire units of single premium annuities, usually of the deferred or retirement type. This is particularly suitable if the large income is probably of short duration.

Men and women who are unable to qualify for life insurance are frequently good prospects for annuities. If a person is uninsurable, he may be so because of occupation hazards, or physical impairments. This is especially true in case there is need of guaranteed financial protection for dependents, where refund, retirement, joint life and last survivor, or survivorship annuities may be suit-

able. Usually if such persons have been rejected for life insurance, they have been convinced of the need for financial protection; and in many cases they will welcome some form of an annuity as the best possible financial protection open to them at the time.

The advantages of a life annuity should be clearly presented where the need for life insurance has ceased and the cash surrender values are requested. Other fertile fields for annuity prospects are policyholders who have secured sufficient life insurance to take care of their families in the event of their death and who have accumulated capital or surplus income that they wish to invest to guarantee an income for their own old age.

Prospects for annuities may be considered from the angle of particular occupations or professions as a means of revealing needs and probable interests. From this standpoint emphasis centers around two general groups: first, some types of occupations or professions which by their high remuneration, but unstable nature, increase the necessity of providing for the future well-being during these short prosperous periods; and second, certain professions and occupations in which the men and women are more than normally interested in annuities.

Particular groups in which the high remuneration may be of short duration include professional sportsmen, race-track promoters, brokers, speculators, movie and stage actors and actresses, singers, authors, and hazardous business ventures subject to serious fluctuations by momentary popularity, fashion changes, or new inventions.

Certain professions may be considered because in the past there has been a tendency for persons engaged therein to manifest more than average interest in annuities. In this group evidencing unusual interest in annuities are clergymen, teachers, dentists, and nurses. In general, the professional nature of the unremitting duties of their work is usually such as to require most of their time, leaving them little leisure to study the changing investment problems.

In analyzing prospects for annuities, the question arises of whether or not there are any dependents that must be taken into consideration by the prospective annuitant in the purchase of an annuity. A distinction may be made between persons who desire to preserve *income* and those who feel obligated to preserve a portion or the whole of the principal.

In general, individuals who are not burdened with the financial support of others are especially good prospects for life annuities. Men and women, particularly those over 40, who are in modest circumstances and who have no dependents or close relatives are generally primarily interested in preserving an income for their own use. By means of a life annuity, persons without dependents can secure the greatest income from their money for the duration of their lives. The annuity is eminently valuable for individuals without dependents; not infrequently where there are not dependents or near relatives, there are not persons on whom such prospective annuitants may depend in old age. Consequently, it is of vital importance for them to make adequate provision for a regular retirement income.

Unmarried women who are self-supporting or who have considerable property are good prospects for annuities to provide guaranteed future life incomes.

Single men engaged in the various professions, such as engineers, doc-

tors, dentists, lawyers, and teachers, are prospects for such annuities because they are frequently free from the financial responsibility of dependents.

The large number of married couples without children are particularly good prospects for annuities. Where a guaranteed life income is desirable, a life annuity may be secured for the husband and the wife separately, or a joint life and last survivor annuity may be bought on the lives of the husband and wife with the full income payable until the death of the last survivor.

Widows and widowers without children who have some accumulated funds on hand should not be overlooked as prospective annuitants.

In many instances annuities are suitable for providing life incomes to persons even though there are grown children or other dependents. It is not always necessary to leave one hundred per cent of the estate to the heirs. Another solution to this difficulty is the refund annuity. Annuities are also used by persons with dependents as a means of guaranteeing life income to dependents.

A wealthy individual may be interested in providing an annuity for an aged friend or faithful servant.

Aged persons of wealth who are interested in giving a large part of their money to charitable and educational institutions are excellent prospects for annuities. If they purchase a life annuity with sufficient part of their capital to guarantee the required ample lifelong income, a large portion of the remainder of the fortune may be safely given to the chosen charity or educational institution at once during the lifetime of the donor rather than by the customary will.

Business firms or corporations may find an annuity useful in retiring a partner or an officer. Where only a few individuals are to be retired on pensions, individual annuities may be secured for such persons as their retirement dates approach, or deferred annuities with refund provisions may be purchased several years previous. By such plans the retiring partner is guaranteed a life income regardless of the future financial soundness of the concern.

Employers are in many cases prospects for group annuities on their employees. There are many companies interested in the provision of old age pensions to employees who have been in the service of the company a certain length of time, and a number of these company plans are in existence. In many cases the employer sees the advantage of placing the pension plan with a life insurance company. This plan assures the employees of the income and relieves the company of the task of managing the fund. Group annuity plans are frequently purchased from life insurance companies covering a large number of employees.

Annuities are also used by trustees for funds left under agreements whereby an income is to be provided to certain individuals for life. There is a good field for the increase of the use of annuities in connection with the making of wills.

Protection. The word protection is used interchangeably with the words insurance and coverage to signify what is included in a policy of insurance.

Publication. *See* Advertisements.

Public relations. Recently there has been much discussion on the subject of insurance and public relations. The subject deals with the relations between the public and the insurance business, and the attitude of the public toward the insurance business. Some of the factors that enter into the problem of public relations in in-

surance are: (1) elimination of misunderstandings; (2) properly training the salesman or the individual in contact with the public; (3) making the public more insurance conscious; (4) getting the public to work with the insurance interests; and (5) breaking down of resistance and stimulating interest. No less than 20 different life insurance organizations are in existence today which function in one way or another on public relations.

Pure endowment. The *pure endowment* form of life insurance may be described as being the direct opposite of the term life insurance policy. Under a term policy (whether it be for a stipulated number of years or for the lifetime of the policyholder), a definite sum is paid to beneficiaries of the group who die. On the other hand, a pure endowment guarantees a definite sum to each survivor in the group at the end of the term of years. This practice results in the survivors' receiving a face amount of the policy at the end of the period, but those in a group who die during the term of the contract have received nothing. *See* Endowment insurance.

Q

Q Schedule. This is a schedule in the annual statement required in the State of New York. This schedule requires the reporting by companies on expenses. New York and Wisconsin have laws that limit the expenses of companies.

Quarterly premium. Life insurance companies allow policyholders to pay their premiums on an annual, semiannual, and quarterly basis. The quarterly premium may be found in many companies by adding three per cent to the annual premium and dividing by four.

R

Railway relief association. An issue in several legal cases has been whether membership in a railway relief association involves the relationship of insurer and insured. In *Johnson v. Philadelphia & Reading R. Co.*, 163 Pa. 127, and *Beck v. Pennsylvania R. R. Co.*, 63 N. J. L. 232, it was held that such were not insurance contracts. In *Mason v. Mason*, 160 Ind. 191, an unincorporated joint relief association, composed of several railroads making payments to beneficiaries of employees, was held to be an insurance company.

Ransom insurance. This is probably one of the earliest preliminary forms of life insurance and grew out of a practice in connection with marine insurance. Pirates in the Mediterranean area would demand a ransom for the return of the captain of a seized ship. It became a custom for the captain to deposit a ransom for his safe return. The ransom policy led to an agreement covering the life of the insured on a voyage, a somewhat broader form of protection, in that this life policy agreed to pay the proceeds to the heirs and creditors of a deceased voyager.

Rate book premium. *See* Book premium.

Rate of mortality. Mortality tables contain several columns of figures such as number dying, number living, and expectation of life. The most important columns in any table, however, is the rate of mortality. If the rate of mortality is known, the other figures may be derived from this fundamental item; namely, the rate of mortality. In the new mortality tables, the rate of mortality declines from age one, where it is high to age 12, where it is the lowest (Industrial Mortality Table) and then increases,

very slowly at first but at an accelerating speed, especially after age 60.

Rates of interest. Two phases of interest rates influence life insurance. Interest earnings represent a large item in connection with investment returns which affect life insurance costs. Since the rate of interest has been declining in recent years, premium rates, as well as cash and surrender values, have been modified accordingly.

Rate structure. The basic factor that makes up the rate structure in life insurance is the mortality cost. Out of a 35-dollar premium, for example, the net premium discounted for interest would be perhaps 30 dollars. The net premium involves the mortality cost.

Rating of age. The age-rating or rating-up of age is one of the methods used in handling substandard policyholders. Under this system the impaired risk is charged a premium that is applicable to a standard risk at the older age, say five years older. Reserves, dividends, and nonforfeiture values are then all based on this advance in age. *See* Advance-in-age plan.

Ratio of actual to expected mortality. *See* Actual and expected mortality.

Ratio of reserves to invested assets. Reserves make up the most important item in the liability side of a life insurance company financial statement. The ratio of the policy reserves to the total admitted assets may be found by dividing the reserve figure by the asset figure. For example if the policy reserves are $3,170 and the admitted assets are $3,507, then the policy reserves are 90.2 per cent (3,170 ÷ 3,507) of total admitted assets. This ratio is sometimes used in evaluating the strength of the financial soundness of a company. The ratio is not necessarily conclusive, and must be considered in relation to quality of assets as well as other special reserves.

Rebating. When a policy is sold at less than the regular published rate, or the insured is allowed a remission of the premium, the practice is termed *rebating*. Rebating has been known to take one of three forms: (1) giving the policyholder a discount not permitted by law; (2) getting a share in the proceeds of the policy contrary to the conditions of the policy; and (3) obtaining some inducement or valuable consideration not specified in the agency contract. A great many states have adopted antirebating laws, and the practice is punishable under the laws of many of the states; both the agent and the applicant are punishable under the penal code. In some states the antirebate laws prohibit the sale of stock as an inducement to secure insurance. The Pennsylvania statute (section 346 of the insurance law), which is very similar to the statutes of other states, reads as follows:

> No insurance company, association or exchange, by itself or by officers or members, attorney in fact or by any other party, shall offer, promise, allow, give, set off or pay directly or indirectly, any rebate of, or part of, the premium payable on the policy, or on any policy or agent's commission thereon, or earnings, profit, dividends, or other benefit founded, arising, accruing, or to accrue thereon or therefrom, or any special advantage in date of policy or age of issue, or any paid employment or contract for services of any kind, or any other valuable consideration or inducement, to or for insurance on any risk in this commonwealth, now or hereafter to be written, which is not specified in the policy contract of insurance; nor shall any such offer, promise, give, option, sell, or purchase any stocks, bonds, securities or property or any dividends or profits accruing or to accrue thereon, or other thing of value whatsoever, as inducement

to insurance or in connection therewith which is not specified in the policy.

The insurance laws of Indiana say:

> The term "rebate," as used in this act, is hereby defined to mean anything of value, or the making of an agreement, expressed or implied, that will directly or indirectly diminish any premiums below the amount specified in the policy or contract. No person shall be excused from attending and testifying and producing any books, papers, or other documents before any grand jury, or any court or magistrate of this state, upon any investigation, proceeding or trial against any other person than himself for a violation of any of the provisions of this act upon the ground or for the reason that the testimony or evidence documentary or otherwise required of him may tend to incriminate or degrade him; but no person shall be prosecuted or subject to any penalty for or on account of any transaction, matter or thing, concerning which he may so testify or produce evidence, documentary or otherwise, and no testimony so given or produced shall be used against him upon any criminal investigation or proceeding.

Recital clause. *See* Attestation clause.

Recovery of premium. In life insurance practice, in some jurisdictions, the rule has been asserted that an insured may recover from an insurance company a premium he has paid in the case of a wrongful forfeiture or repudiation of the life insurance policy. An early case holding that the insured may recover the premiums paid where a life policy has been wrongfully forfeited is *McKee v. Phoenix Ins. Co.,* 28 Mo. 383. In substance, this rule has been generally adopted in Pennsylvania, North Carolina, and the federal courts. In New York, on the other hand, finally the opposite has been held; likewise, this doctrine of right to recovery on wrongful forfeiture is repudiated in Indiana.

Generally, a person taking insurance may recover premiums that he paid for an insurance policy: (1) which was never delivered; (2) which, when issued, was different from that agreed upon; (3) when he was induced to take such by fraud or misrepresentation of the company or its agent (*Delouche v. Metropolitan Life Ins. Co.,* 69 N. H. 587); (4) if the policy is void ab initio (*Continental Ins. Co. v. Burns,* 144 Md. 439); or (5) if, in taking out the policy, the person taking it out was not aware of any wrongdoing (*Fisher v. Metropolitan Ins. Co.,* 162 Mass. 236). It has been ruled by some courts that, if the risk never attaches, if the assured is not guilty of fraud and if contract is legal, he may recover the premiums paid even though there may have been some misrepresentation or breach of warranty.

Many forms of property contracts specify that the unearned portion of the premium is to be returned in case of cancellation of the policy. The rule that premiums will not be returned after the risk attaches does not apply to policies containing such a cancellation provision. However, where the assured was liable for arson, courts have held that he was not entitled to recover for the loss or the unearned portion of the premiums paid. *See* Return of premium.

Redating. *See* Reinstatement.

Redemption value of bonds. Life insurance companies buy bonds for the investment of reserves. The sum that a bond pays on the date of its maturity is its redemption value. In addition to the redemption value at maturity, the bond pays current interest at a fixed percentage of the face value of the bond. *See* Amortization.

Reduced paid-up insurance. In life insurance policies, in the event of non-

payment of premium, the amount of the insurance may be reduced to an amount of fully paid-up life insurance equivalent in value to the cash surrender value of the policy. Not many policyholders select this option of the nonforfeiture provisions of the policy. Although this option furnishes a form of permanent protection, though somewhat reduced in amount, still most policyholders prefer the cash surrender value. Some companies make the reduced paid-up insurance option an automatic feature of the policy contract in the event that the policyholder fails to select any other of the nonforfeiture provisions. *See* Nonforfeiture options; Paid-up insurance rights.

Reducing insurable interest. An insurable interest in the life of an individual or in property that diminishes for any reason is often called a *reducing insurable interest.* A reducing insurable interest may reach such a point as to extinguish the insurable interest entirely. The gradual payment of a debt may eventually exhaust the insurable interest of a creditor in the life of a debtor. *See* Insurable interest.

Reducing premium. In life insurance, when the premium to be paid diminishes with the age of the insured or with the duration of the policy, it is called a *reducing premium. See* Decreasing premiums.

Reformation of insurance contract. Insurance policies may be reformed by equity in case of mutual mistake, or where there is a mistake by one party and fraud on the part of the other party.

For example, a mistake of the agent, of which the policyholder did not know, in attaching an old rider to a renewal policy instead of a new one, was not considered a mutual mistake and did not allow the insurance company to make a reformation for the company after the occurrence of loss by fire.

In case the insured knew that a policy issued differed from the one agreed upon by the agent and himself, but had been informed by the agent that the error was of no importance and could not be taken advantage of by the insurance company, it was held that equity could reform the policy. This case (*Sloss-Sheffield Steel & Iron Co. v. Aetna Life Insurance Co.,* 74 N. J. Eq. 635, 70 Atl. 380) held a "mistake" to be something done under a false belief which otherwise would not have been done; or some intentional act, omission, or error in consequence of ignorance, imposition, or misplaced confidence. The mistake of the insured is nearly always the acceptance of a contract not according to his expectation. Fraud on the part of the underwriter generally brings about this mistake of the insured, namely, his accepting a policy with a different agreement. Generally, if a policy varying from the agreement between the parties is issued, the insured is entitled to reformation even though a reading of the policy would have disclosed the difference. *See* Agent's power to waive policy.

Refund annuity. A refund life annuity is very similar to the life annuity. It is an immediate annuity purchased by a single cash premium at the time the contract is written, and, exclusive of the installment refund feature, it is contingent upon the duration of one life. It is subject, however, to a little lower rate of return than the life annuity because it contains an agreement preventing the immediate liquidation to the company of the accumulated fund upon the death of the annuitant by guaranteeing an installment refund of any balance of the purchase price. This annuity, sometimes called the

one hundred per cent refund annuity, is unique in that the return to the annuitant may be much more than the purchase price, and the return to the annuitant and the beneficiary cannot be less than the principal invested.

At the present time the refund life annuities issued by the various life insurance companies are not exactly standardized in all the terms and provisions of the contract although the main agreements are nearly uniform.

By the terms of the customary annuity agreement, the insurer in consideration of the statements in the application and of the receipt of the required lump sum premium guarantees a regular periodic income (annually, semiannually, quarterly, or monthly as elected) to the annuitant during his lifetime, with the first payment due immediately at the end of the first such period.

The contract, in addition, provides that in case the annuitant dies before the aggregate income payments by the insurer equals the original single premium, the insurer will continue the regular income payments on their due dates without interruption to the designated beneficiary until the total of the income payments made to the annuitant and the named beneficiary equals the single premium (without interest). The final payment by the insurer is for any balance of the single premium. This contract, therefore, may not terminate with the death of the annuitant if there is a balance of the purchase price remaining with the insurer.

The refund provision is designed to attract annuitants who wish to make provision for others, as well as for themselves, and who object to the life annuity on the ground that if the annuitant dies after receiving only one or two payments from the insurer the entire amount of the principal invested in the single premium is retained by the company. It should be pointed out that in a certain sense the main difference between the life annuity and the refund annuity is that under the refund annuity the annuitant reserves the right of distribution of his residual estate whereas under the life annuity the distribution is carried out by the insurance company through the operation of the law of large numbers.

Under the refund life annuity, therefore, the company guarantees the minimum return of the entire purchase price, whether the annuitant lives or not, but the uncertain element from the company viewpoint is the possibility that an individual annuitant may live to receive much more than the principal sum. Consequently, in such an annuity the provision giving the company the right to require proof that the annuitant is living on each due date assumes importance after the annuitant has received income payments totaling the principal.

In drawing up a refund life annuity agreement, it is necessary, whenever possible, to name one beneficiary to whom the refund, if any, in the event of the premature death of the annuitant is to be paid. The contract may also require evidence of the death of the annuitant before making any payment of any balance of the principal to the named beneficiary.

Generally, where the annuitant has reserved the right to change the beneficiary, unless otherwise provided or unless the contract has been assigned, the annuitant may change the beneficiary by written notice to the insurer accompanied by the annuity contract for endorsement. The change becomes effective upon such endorsement of the contract by the insurer. The contract may also specify that

the interest of any beneficiary who dies before the annuitant is to be passed to the annuitant, unless otherwise provided.

In a few instances, the refund life annuity contract may be written allowing an optional cash settlement of any balance to the beneficiary in lieu of the regular income payments. Where such an option is provided, the present value of any such unpaid installments commuted at four or four and one-half per cent interest compounded annually will be paid in one sum.

A privilege embodied in some refund life annuity contracts, which is not found in ordinary life annuities, stipulates that after the contract has been in force a certain time (such as two years) it may be surrendered by the annuitant for its cash value while there is a balance of the single premium remaining with the insurer. Loan values, however, are not generally provided under these contracts.

Some of the significant features involved in the charge for an immediate refund life annuity are the sex of the applicant, age of applicant at the last birthday, and the frequency of the income payments. The rates for the single premium refund annuity are quoted by many companies for the various ages at last birthday for men and women on these plans:

1. Price of annuity giving the single premium necessary to provide periodic payments of $100 payable each year, $50 payable each six months, $25 payable each three months, and $10 payable each month; and

2. Annuity purchased by $1,000, stating the annual payment, semiannual payment, quarterly payment, and monthly payment so provided.

In the first table the price is an uneven amount and the annuity income is an even amount, whereas in the second table the reverse is true. The single premium required to provide a particular income payment is higher (or the amount of the annuity purchased by $1,000 is less) for women than men and also for the more frequent periodic income payments than for the annual payment plan. In determining the age for rating purposes in most companies, a proportional adjustment is allowed for each quarter year or each full month elapsed since the last birthday of the applicant.

Although the return from the refund life annuity is somewhat smaller than that provided under the life annuity, it is particularly appropriate where the annuitant desires in the event of his early death to have any balance of the principal returned to a personally designated dependent rather than allow the remainder of the fund to be distributed to unknown members of the annuity group through the medium of the life insurance company. This refund annuity is admirably suited to the needs of a person who is willing to receive a slightly lower guaranteed income during his or her lifetime in order that payments may be continued to the named beneficiary until the total principal has been returned in the event of the death of the annuitant at an early age. The guarantee that at least the principal will be refunded is a strong argument for many persons where it is preferable not to have the principal entirely liquidated to the company for impersonal distribution in case of the early death of the annuitant.

If a man 75 years of age whose life savings amounted to approximately $10,000 knew that he would not live longer than ten years, he could assure himself of the maximum income for these ten years from this capital and still be certain that in case of

premature death his daughter, for example, would receive the balance of his money by this method: (1) depositing the $10,000 in savings banks or investing it in bonds; (2) using the income from this money; and (3) withdrawing one tenth of the capital each year. This particular man, however, cannot predict with certainty how long he may live, and so this plan of withdrawing a part of the capital each year would be very dangerous. By the purchase of a refund life annuity with the $10,000, this man can accomplish this purpose of an absolutely safe and high yield (over $65 per month) for life with the satisfaction of knowing that in case of premature death the balance of the principal will be paid to his daughter in regular income payments. Another illustration may be given showing the function of this annuity. A widow investing the proceeds of the life insurance payments received upon the death of her husband may be willing to accept a somewhat smaller return than that obtainable under the regular life annuity in order to be certain that, in the event of her premature death, any balance of the purchase price will be returned to her daughter in regular income payments. Furthermore, a son or a daughter may find the refund life annuity an admirable way in which to provide a guaranteed life income for an aged parent.

The effect of the refund provision, of course, is to lessen to some extent the return on the principal sum paid for the annuity, because the insurer guarantees to return the purchase price on every contract. Some authorities suggest that such guarantee provisions "may tend to defeat the true purpose of annuities," which is usually to obtain the highest income from the capital for life. It is important to realize that the annual income from the installment refund life annuity at the advanced ages is greater than that securable from other investments with any comparable measure of safety, and there is also the regularity of the lifelong income in addition to the elimination of all investment cares. *See* Life annuities; Prospects for annuities; Annuities classified.

Refund for direct payment. Industrial companies give all policyholders a refund of ten per cent of the premium when the policyholder pays the premiums directly to an office. This refund provision is now found in many industrial policies and reads as follows:

> If, while premiums are not in default beyond the grace period, notice is given to any Office of the Company which maintains an account for receiving direct payment of premiums, that premiums will in future be paid directly to such an Office, and if premiums are so paid continuously for a period of one year without default beyond the grace period, the Company will, at the end of such year, refund 10 per cent of the total of the year's premiums beyond the grace period, followed by revival of the Policy without the services of an Agent; such refund will be made, but will be reduced for each such default by 10 per cent of the premiums due on the date of the application for revival, unless premiums for more than 26 weeks were then due, in which case no refund will be granted as to premiums which were then due or as to premiums paid prior to default.

Refund or dividend. A refund or dividend in life insurance is derived from three main sources: (1) a mortality profit; (2) excess interest earnings; (3) savings in expenses.

The average life insurance company follows a table of mortality and assumes a certain rate of mortality. In actual experience, the death losses

may be less than those expected according to the table of mortality. This will furnish a more favorable mortality and bring about what is termed a mortality saving.

Likewise, the actual interest earned may be in excess of the assumed rate of interest; if so, that income helps to contribute to the amount of dividends given to the policyholder. *See* Nonparticipating insurance; Participating insurance.

Regular life annuity. *See* Life annuities; Annuities classified; Prospects for annuities.

Regular life insurance. *See* Straight life insurance; Old line life insurance.

Regulation and supervision. Although state control over the operation of the insurance business goes back in some states to the early history of life insurance, the development of the extent of regulation and supervision increased materially following the Armstrong Investigation of 1905. In 1906 New York State adopted more drastic codes under which certain regulations were imposed on the companies: (1) more policyholder control; (2) more publicity; (3) limitation on kinds of policies; (4) forfeitures prevented; (5) warranties changed into representations; (6) deferred dividends prohibited; (7) surplus distribution regulated; and (8) investments controlled.

With the passing of the years, and the firm establishment of the principle that the business of insurance is of such a special character that the state has the powers of control, ever increasing supervision and regulation have been imposed on the companies. In general this control takes the form of state insurance laws and the creation of a state insurance department that is given authority under the code to impose rules, regulation, and supervision over the business. The chief objective of this state regulation is to protect the interest of the policyholders. No less than ten main activities are carried out by state insurance departments in supervising and regulating the insurance business: (1) approval and control of the organization of new companies; (2) requirement of an annual statement from the companies; (3) periodical examinations of the companies; (4) control over the investments and valuation of company assets and liabilities; (5) control over agent's licenses and administration of agency qualification laws; (6) operation of insolvent companies; (7) supervision of the election of company directors; (8) regulation of issuance of policy contracts; (9) regulation of sales and acquisition costs; and (10) taxation of companies. *See* Supervision and regulation.

Reinstatement of life policy. A provision in a life insurance policy that gives the assured the right to reinstate a lapsed policy within a reasonable time after lapsation, provided, of course, that the risk involved is still insurable, is known as a reinstatement and is a standard policy provision in life policies. The right of reinstatement after a forfeiture for nonpayment of premium under a particular policy depends, of course, upon the specific agreements in the policy. Following is an example of such a provision in a life policy:

Should this policy lapse, it may be reinstated within three years thereafter, upon evidence of insurability being furnished by the Insured satisfactory to and approved by the Company at its Home Office, and upon the payment of past due premiums with interest at the rate of 5% per annum, and the payment or reinstatement of any other indebtedness hereon with accumulated interest at the rate provided for such indebtedness.

Such reinstatement shall be contesta-

ble, on account of fraud or misrepresentation of material facts pertaining to the reinstatement, for the same period after reinstatement as provided with respect to original issue of this policy.

It is the privilege of the insurance company to impose certain limitations on the right to reinstatement if not contrary to public policy. Such agreements usually limit the time in which the policyholder has this right to reinstatement. Likewise, the payment of all premiums due is necessary before the contract can be reinstated. Another condition usually imposed by the company is that the insured must be in good health in order to have the policy reinstated, that is, furnish evidence of insurability satisfactory to the insurance company. The right of reinstatement is denied in case the cash value of the policy has been paid, or where the policy has been continued as extended term insurance for the full period allowed.

Although the company may impose such conditions as prerequisites to reinstatement, it may also waive such restrictions if it desires to do so. The reinstatement does not usually create a new contract but brings the original contract to life by canceling the forfeiture (*Mutual Life Ins. Co. v. Lovejoy,* 203 Ala. 452). Reinstatement of life, accident, or health policies may stipulate that the company is not liable for death, injury, or sickness suffered by the insured within a certain period from the time of reinstatement. Such restrictions have been held not to be against public policy.

Reinsurance fund. The reserve equals the amount that it would cost the insurer to reinsure the risk and for this reason is frequently called the reinsurance fund. The net present value of life insurance is sometimes called the reinsurance fund or reserve.

When life insurance companies accept a policy that is in excess of its own limit, the excess may be placed with some other company, or reinsured. Two different forms of reinsurance exist: (1) coinsurance; and (2) term insurance. Either of these two different plans may be effected on a facultative or an automatic arrangement. When the reinsurance is automatic, the reinsurer takes unconditionally a fixed proportion of the initial writing company's business. Under the facultative plan, on the other hand, the reinsurer has an option to take or reject the amount of the reinsurance after the data have been submitted to the reinsurer for consideration.

Reissued policies. A life insurance policy may be issued but rejected by the insured. Sometimes the policy is redated and issued again, and, if accepted by the applicant, is sometimes called a reissued policy.

Rejection. This term applies to an application for life insurance which is rejected by the company. Since the application constitutes the "offer," the company has the right to make a rejection if it wishes. *See* Selection of risks.

Relative size of income payments. Annuities may be grouped with reference to the relative size of the income payments becoming due to the annuitant at the various successive intervals, whether they are decreasing, increasing, or equal.

Briefly, a *decreasing annuity* is one under which the payments are decreasing by arithmetical or geometrical progression; an *increasing annuity* is one under which the payments are increasing by arithmetical or geometrical progression. Increasing and decreasing annuities, for example, may involve rather intricate complexities, and there may be various possible types: (1) the payments may increase a certain amount each

year for the entire life of the annuitant; (2) the payments may increase or decrease a certain amount each year for a certain period from which time they may be uniform at that amount for the life of the annuitant; or (3) the payments under temporary life annuities may be issued with each payment up to the last of the limited payments increasing or decreasing a certain sum. The amount of the interval increase or decrease of the income payment may be different from the amount of the first payments.

The customary life annuity, however, provides *equal* payments of a specified number of dollars to the annuitant upon the first payment date and each successive interval during the term of the contract. *See* Annuities classified; Life annuities; Prospects for annuities.

Release of interest. In life insurance, after the reason for assigning the policy has been satisfied, a *release of interest* is obtained and filed with the insurance company. The mere possession of the policy by the insured is not proof that such existing obligation has been satisfactorily carried out. The release of interest will prevent any possible litigation over the question. Such a form as the following may be used for releasing the interest of the assignee:

> The consideration for which policy No. ...... upon the life of .... issued by the Blank Insurance Company was assigned to us (me) having been fully satisfied and discharged, we (I) being of legal age, hereby release all right, title and interest in said policy.
>
> Witness our (my) hand .. and seal .. at .... in the State of .... this day of .... 19....
>
> Signed, Sealed and
> Delivered in the Presence of
>
> ....
> ....
> Two witnesses

Remainderman. This term is used in connection with estates and the rights of claimants in estates, such as life policy settlements. It generally refers to that type of an estate which is not to come into effect until some future date or until the happening of a certain event or contingency. A *vested remainderman* gets a fixed present interest in the future, whereas a *contingent remainderman* secures a future interest to take effect only under certain conditions. *See* Optional modes of settlement.

Removal of extra premium. *See* Extra premium; Substandard insurance.

Renewal term insurance. *Renewable term insurance* provides that the policyholder has the option, at the end of the policy period, of renewing the contract for another period without medical examination. The premium, of course, increases with each renewal. *See* Term insurance; Convertible term.

Renewal commission. In life insurance, an agent is paid a certain percentage of commission for each year the policy remains in force, this commission payment often running for ten years. The most widely used plan is perhaps the payment of 50 per cent of the first year's premium and nine 5 per cent renewals. In those forms of insurance in which the policy terminates annually, the agent is paid a renewal commission each time the policy is renewed.

Renewal premium. When a policy expires, the payment of another premium is required to maintain the insurance in force. In life insurance, all premiums paid after the first year are called *renewal premiums*. The collection of such premiums is usually termed the practice of securing renewal premiums.

Renewal receipt. Prior to the expiration of an insurance policy, renewal notices are sent out to the policy-

holder. Besides the renewal notice, a detachable receipt for the premium may also be forwarded by the company to the agent and placed in the hands of the agent for a renewal of the policy. When this receipt is properly filled out, countersigned by the agent, and attached to the policy at its date of expiration, the insurance is continued in force. Many companies have stopped the practice of using renewal receipts, although it is still quite a common practice in accident insurance. Renewal receipts are used rather extensively in English insurance practices.

Replacements. If a policyholder who has previously been issued insurance is issued a new policy, it will be considered a replacement if old insurance has terminated within six months prior to the date of the new policy, or if old insurance terminates within six months after issue of the new policy. In such cases, renewal commission only will be allowed on the first annual premium on the new policy, unless the regular first-year commission on the new policy less the first-year commission on the terminated policy is greater than the renewal commission, in which case the difference in the first-year commissions will be allowed. If the agent has received a greater commission on the new policy, the difference between the commission received and the adjusted commission will be charged to the agent's account. Such is the practice in many companies.

If a policyholder makes a policy loan on an old contract within the period of six months prior to the date of the new policy to six months after such date and then lapses the old policy on the next anniversary or premium date, the new policy shall be considered a replacement and the commission may be limited as stated above, and the company reserves the right to charge back any excess that has been allowed.

Representations. All statements purporting to be made by or on behalf of the insured shall in the absence of fraud be deemed representations and not warranties. This is a requirement of the state laws and a provision of the policies. No statement shall void the contract or be used in defense to a claim under the contract unless it be contained in the application for the policy and a copy of such application attached to the policy.

A warranty must be absolutely and literally true. A breach of a warranty is sufficient to render the policy void whether the matter warranted is material or not. A representation, on the other hand, need only be substantially true. The applicant for a life insurance policy does not warrant that statements made in the application are absolutely true. Common sense tells us that some of the answers required to questions in the application can be made only in good faith and simply to the best of the knowledge and belief of the applicant.

An applicant for life insurance is required, of course, to state truthfully and in the utmost good faith all matters within his knowledge that are material to the risk. Materiality means in this connection some fact or condition known to the applicant likely to affect his insurability. Failure to disclose such a fact, that is, concealment or false statement in regard thereto, would be a misrepresentation. A misrepresentation of this nature would constitute such a fraud as to render the policy null and void if contested by the company within the incontestable period.

Repudiation of life contract. *See* Nonforfeiture options; Not taken policies.

Repurchase of policies. If the policyholder surrenders one policy for the cash value and then uses this money to buy another policy, such a transaction amounts to a repurchase of policies. On surrender, when extended term insurance is taken, the time for which this term insurance runs is "equivalent" to a purchase of term insurance for the cash value of the policy.

Reserve basis. *Reserve basis* is the rate of interest that an insurance company assumes it will earn in the investment of its funds. It has nothing whatever to do with the actual earnings of the company. A company, for example, may be operating on a three per cent basis and actually earn four and one-half per cent.

As a rule, the policy issued by the company provides a statement of the reserve basis on which the particular policy is issued or operates. For example, the following policy provision is typical:

> The reserve on this policy, exclusive of the reserve on account of disability or double indemnity benefits, if any, shall be computed according to the American Experience Table of Mortality and three per cent yearly interest on the New Jersey Standard modification of the preliminary term method of valuation. The paid-up and extended values are equivalents of the cash values, which equal the whole of the life insurance reserve less not more than 2½% of the sum insured. Values for years subsequent to those shown in the above table will be equivalent to the full reserve (cents omitted) and will be furnished by the Company upon request. Values at the end of fractional parts of any policy year paid for will be proportionately increased.

When the rate of interest is lowered, the result is an increase in the size of the reserve. An extra net premium is required, therefore, to make up for the lesser interest which it is assumed will be earned. Irrespective of the rate of interest assumed as the basis for the reserve, the reserve tends to increase gradually until the end of the policy period when it reaches a sum equal to the face amount of the policy. As time elapses, therefore, the relative difference in reserves on different interest assumptions tends to grow smaller. *See* Reserves.

Reserve premium. *See* Level premium.

Reserves. The basic theory of life insurance in its simplest aspect presupposes the existence of a large group of persons banded together in order to assure each one of the group that he will leave an estate of a certain size whenever he shall die. For example, it is customary to assume a group of 100,000 persons of the same age. Let us suppose that each of a group of 100,000 persons is exactly 35 years old and that each person wishes to be assured that his estate will have $1,000 if he should die. For this purpose the group may elect a few of their number to manage the enterprise. In order to determine the amount each member of the group must pay, the company examines this table of mortality (American Experience) to ascertain the number of the group that will probably die before the end of next year. From the mortality table may be seen the number of members of this group who are likely to die. According to this table, the number is found to be 8.95 persons per thousand, at age 35. If one will pass his finger down in the left-hand column under the caption "age" to 35, opposite that in the third column, he will find under the caption "death rate per 1,000" 8.95. Therefore, the company will expect 895 of their 100,000 members to die

by the end of their 35th year. In order to pay $1,000 to the estate of each of these, the company must collect a total of $895,000 from the group of 100,000. This means a payment or premium of $8.95 from each member of the group. This amount is called the annual cost of insurance for one-year term.

At the beginning of the second year, there will remain 99,105 persons of the original group who were 35 years old when the company began doing business. If these 99,105 wish to continue their insurance for the second year, each one must pay another premium to the company. An examination of the mortality table shows that the mortality rate is slightly higher between the ages of 36 and 37 than between the ages of 35 and 36. The mortality table indicates that out of the 99,105 there are 901 who will probably die before the end of the second year. $901,000 is then the amount needed this year in order to pay $1,000 to the estate of each of the 901 persons expected to die. A contribution of $8.97 from each will be required.

This represents an increase of two cents per person in the premium of the second year over that of the premium of the first year. This same process can be continued during each succeeding year until all the members of the group have died. However, it can readily be seen that the premiums would have to increase every year because of the rising rate of mortality as the group gets older. By the time the individuals have reached the age of 69, for instance, when approximately half of this group that started would be dead, the net annual premium on $1,000 insurance would have to be about $57. From this age on, the premiums increase so rapidly as to become almost prohibitive. In order to obviate the difficulty presented by this continually increasing cost of annual one-year term insurance, there was devised what is known as the level premium life insurance. This calls for an annual premium that remains the same throughout the lifetime of the insured. For a whole life policy for $1,000 taken out at age 35, the net level premium each year is $21.08. This net level premium is based on the American Experience Table of Mortality and assumes that the company will be able to earn from its investment of reserves interest at the rate of three per cent.

The level premium is computed in such a way that the earnings on the reserves augmented by the annual premiums will provide the company with sufficient funds to meet all claims. To maintain $1,000 of life insurance in force throughout his lifetime, a person who takes out his life insurance at age 35 must pay a net level premium of $21.08 each year. In the early years of his life, this net level premium is in excess of what it would cost to buy one-year term insurance. This excess charge constitutes the policyholder's savings and is accumulated for him at compound interest by the company in the *reserves*. When the insured has attained an age where the mortality rates are so high that the annual cost of insurance is greater than this level premium, the company begins to draw on the interest earned on these reserve funds. As a net one-year term premium of about $8.84 would be enough to pay all claims in the first year, using the same table and the same interest assumption, the balance would go into the reserve. The interest earned would bring the reserve to $12.88 by the end of the first year, assuming nothing was used for expenses.

The American Experience Table

of Mortality assumes that no life extends beyond age 96 and that all claims will have been incurred by that time. At age 96 the reserve on each policy will equal the face of the policy. A whole life policy may be considered as an endowment payable at age 96. Ten years after age 35, when the policy was first taken out, the reserve will amount to $146.01. When the policy has been in force 20 years, the reserve will amount to $327.58. By the time the policyholder is 96 years old, the reserve will have reached the face value of the policy, $1,000. The company holds the reserve for the benefit of the policyholder, subject to certain restrictions; the policyholder may obtain the reserve in cash by surrendering his policy. On the other hand, he may borrow almost all of the reserve from the company, at interest. In fact, cash values, loans, paid-up insurance, and extended term insurance are all based on this reserve value. There are two elements, therefore, insurance and savings, that make up the amount that is paid upon the death of the insured. These parts vary in importance depending upon the number of years that elapse before death occurs. In the early years the insurance element, the amount of risk, is predominant. In the later years the reserve, or the policyholder's accumulations of savings, overshadows the insurance.

Residence. Applicants for insurance are usually required to state their residence. Cases have arisen in which policyholders have seriously misstated their residence. The term *residence* is defined in *Mobile Life Insurance Co. v. Walker*, 58 Ala. 290, as the place of permanent, rather than temporary, abode, and means *domicile,* rather than just habitancy. In this case, the fact that the applicant said he lived in Louisiana, though he had been in Kentucky temporarily for two years while his daughter was in school, did not mean that his residence was not still in Louisiana as he so regarded it to be. Generally, the statements regarding residence have not been strictly construed by the courts.

Most life insurance policies written today are free from restrictions as to residence, travel, and occupation. Underwriting considerations, however, require a careful investigation of risks who are apt to reside in an unhealthy climate, or travel by airplanes, or engage in a dangerous occupation. World War II brought about the use of war and aviation clauses, and some companies were more careful about travel in dangerous zones.

Resident company. Practically all the state laws define a *resident company.* The following is the definition given in the laws of Illinois:

> That the words "resident company" when used in this Act shall include any resident or domestic insurance corporation, company, voluntary or unincorporated association or society organized or in process of organization under any of the insurance laws of this state; the words "non-resident company" shall mean any insurance corporation, company, voluntary or unincorporated association or society organized or in process of organization in some other state or territory of the United States which is doing or attempting to do or representing that it is doing business in this state; the words "foreign company" shall mean any insurance corporation, company, voluntary or unincorporated association or society organized or in process of organization under the government or law of any country outside of the United States which is doing or attempting to do or representing that it is doing business in this state; and the word "Director" herein shall mean the director of trade and com-

merce of this state and his successor in office.

See Domestic company.

Restrictions. *See* Substandard insurance; War clauses.

Result clause. This is a war clause introduced into life insurance policies which excludes only deaths resulting from the war. The difficulty with a clause of this nature is the problem of knowing precisely whether or not a death was the result of war or happened anyway. As an illustration, a death from accident or disease even in a war area may have happened "naturally." According to the tables of mortality, three men per thousand will die yearly between the ages of 18 to 35. *See* Status clause.

Retained at interest. This is one of the settlement options under a life insurance contract. The proceeds are retained by the company at a certain per cent interest payable annually during the lifetime of the payee. The principal sum and accrued interest may be withdrawn at any time, on 60 days' notice, unless otherwise specified in electing such option. If desired, interest will be paid in semiannual, quarterly, or monthly parts of equivalent value, beginning six months, three months, or one month, respectively, after the death of the insured. Interest payments will be increased from profits as apportioned by the company. *See* Optional modes of settlement.

Retirement annuities. Retirement annuities may be briefly characterized as adjustable self-pension and investment plans which allow the annuitants various options and privileges before the annuities are entered upon. Such special retirement annuities may be distinguished from other deferred annuities by the great flexibility of the contract during the deferred period, especially regarding the maturity date and the retirement settlements.

The annual premium retirement annuity is a deferred life annuity, purchased by fixed yearly premiums payable during the deferred period, which provides a retirement income to the annuitant according to several options. In some cases the installment premiums during the deferred period may be paid semi-annually, quarterly, or monthly to suit the convenience of the annuitant, and a grace period is allowed for the payment of the premiums after the first. Although the life income provided by the typical retirement annuity is frequently a monthly income, it may be an annual, semiannual or quarterly life income.

The annual premium retirement annuity is issued in consideration of the representations in the application and of the receipt of the annual premium of a certain sum and of the payment of a like premium on or before the specified day of the particular month in each year thereafter until a certain number of payments are made or the prior death of the annuitant. The life insurance company agrees to pay the annuitant a fixed monthly income beginning on the tentative specified future date, if the annuitant is then living, and subsequent payments are to be made monthly thereafter during the remaining lifetime of the annuitant. The amount of the annual premium is definitely fixed in the original agreement and is not subject to change. The exact wording of the annuity clause depends upon whether the contract is originally written as a life annuity without refund, a life annuity with refund of the balance of the purchase price, or a life annuity with a certain number of payments guaranteed. In any case in this original agreement, which is sub-

ject to several options before the annuity is entered upon, a statement is made regarding the amount of the annual premium payments, the anticipated age of retirement, and the corresponding monthly annuity payable at this expected date of retirement. Unless the contract is otherwise endorsed, the income will be paid in accordance with this original agreement.

The outstanding feature of the usual retirement annuity, however, is that, before the annuity is entered upon, any of the various optional modes of retirement settlements at the various optional maturity ages mentioned in the contract with its corresponding annuity income may be selected by the annuitant in substitution of the mode of settlement and the date of retirement stated in the original clause. However, an election of an annuity optional settlement in substitution for the original plan is usually not valid unless properly endorsed upon the contract.

A special characteristic of a retirement annuity contract, which is quite different from the provisions of the usual deferred annuity, is this flexibility regarding the date of the commencement of the annuity. At the time the contract is written the annuitant selects the age at which he expects to retire, and, unless otherwise endorsed, the first annuity will be paid on this specified anniversary of the contract. However, if an unexpected change in the circumstances of the annuitant makes it necessary for him to stop paying the annual premiums before the tentative retirement date originally selected or if he desires his annuity to begin sooner than this original date, the *annuitant* may elect, according to the policy terms, to take a reduced annuity income beginning at some future anniversary date earlier than the original maturity date.

The company, however, may not permit the annuity to commence at an age under 40, 45, or 50, for example. A rule of some companies is that income payments will not start until the contract has been in force a certain time, such as three, five, or ten years. Likewise, if the annuitant elects in writing to pay premiums longer than originally planned, he may secure a larger income for life beginning at some later anniversary date, although usually this elected maturity date may not be later than a stated age, such as 70, or 75, depending upon the rule of the particular company.

This substituted maturity date cannot be fixed for an earlier date than that on which the annuitant decides to change the time of retirement. The amount of the income is adjusted in accordance with the substituted maturity date. The life income available at any possible substituted age is the same as the income that would have been available if such age had been originally chosen. The annuity contract indicates the income available at the various optional maturity dates. In case of the change of the maturity date, the premiums are payable until the substituted date chosen for the first annuity payment by the insurer or the prior death of the annuitant.

Other outstanding characteristics of retirement annuity contracts are the optional retirement income settlements available to the annuitant. Although these features are not the same in all the contracts, a typical contract provides several alternative types of retirement income settlements, such as life annuity without refund, life annuity with payments for five or ten years certain. The selection of the desired retirement

income must be made on or before the due date of the first annuity check as stated in the policy; otherwise the contract will stand as originally written. The contract must be properly endorsed to show the election of an annuity option.

The right to exercise such options, of course, hinges upon all premiums having been paid up to date, although special provisions are applicable in case of default in premium payments. If there is an assignee or irrevocable beneficiary, the selection of an annuity option is subject to his or her approval. Subject to such consent, the income settlement option may be changed by the annuitant from time to time before the commencement of annuity payments according to the original contract terms.

The usual retirement annuity contract contains a table of annuity options showing the different amounts payable under the various options at the various maturity dates for each premium unit of $100 (or each unit of proceeds of $1,000) applicable at the maturity date for providing the annuity. In addition to the cash surrender privilege in the retirement annuity, issued by one company or another, the annuitant may elect in writing, in lieu of the annuity stated in the annuity clause of the contract, one of the various common types of retirement income settlements.

Under this life annuity option an annuity is payable by the insurer beginning at the specified maturity date during the life of the annuitant, and there is no refund of the purchase price in case of the death of the annuitant after the annuity is entered upon. If this option is selected, the contract terminates with the last payment preceding the date of the death of the annuitant. This option provides the greatest income during the life of the annuitant.

In case of the death of the annuitant after receiving his annuity, even after obtaining only a few payments, there is no refund to a beneficiary under this option. The compensating feature, however, is that it gives the annuitant a larger return during his life than the other options, and if he is fortunate enough to enjoy a long life he may receive much more than the purchase price.

If the refund life annuity option is selected by the annuitant, an annuity is payable by the insurer beginning on the elected maturity date for the life of the annuitant, and, in addition, there is the guarantee that the minimum return will equal the full equity or cash value of the premiums purchasing the annuity at the time of retirement. If the annuitant lives, he may secure much more than the cash value at the maturity date, but the return to the annuitant and the beneficiary combined will not be less than the amount of the cash option at retirement.

If the life income with stipulated payments option is selected, an income is payable from the maturity date of the contract for the life of the annuitant, and there is a guarantee of the payment of a minimum of 120 monthly payments. That is to say, a life income is payable to the annuitant beginning at the date selected; but, if he dies before the income payments by the insurer have been made for ten full years, the insurer agrees to pay to the beneficiary any of the guaranteed 120 payments remaining unpaid. Frequently, any unpaid balance is commuted at the specified rate of interest and paid in one sum to the beneficiary, unless otherwise provided.

Some contracts include an optional income settlement similar to the fore-

going which provides an income for the life of the annuitant beginning at the elected maturity date, but which guarantees a minimum of 60 payments under the contract.

An important feature of the retirement annuity is the death benefit (or refund provision) under which the premiums paid for the contract are protected in case of the death of the annuitant before the annuity is entered upon.

As an emergency feature, retirement annuity contracts generally allow cash values if the annuity is surrendered during the deferment period. Usually, after one full annual premium has been paid and before the beginning of the annuity income, the annuitant may surrender his annuity for its cash value, less any indebtedness. The payment of this cash value may be postponed for a period of 90 days by the insurer. The cash surrender values during the time the premiums are being paid are the same for all ages at issue for each unit of premium, and the values build up each year. One of the nonforfeiture provisions usually allows the annuitant within 31 days after default in premium payments to elect in writing to take the cash surrender value.

Some retirement annuity contracts, though not all, have loan values available during the premium-paying period. This loan privilege should be recognized as essentially an emergency feature of the contract. The maximum amount of any such available loan is the value of the contract at the end of the then current contract year subject to deductions for any outstanding indebtedness to the company. Any such loan on the contract reduces: (1) the benefit payable upon the death of the annuitant during the deferment period; (2) the amount of the cash surrender value; (3) the sum available to secure a paid-up annuity in case of default in premium payments; or (4) the annuity available at retirement. The contract may usually be reinstated at any time before the maturity date by the repayment of the entire loan or any part; moreover, evidence of insurability is not required, except in connection with disability benefits, if any.

A paid-up deferred retirement annuity for a reduced amount becomes effective automatically in case of a lapse in the premium payments if the contract is not surrendered for its cash value. Without any further premium payments or any action on the part of the annuitant, a life income (or a refund life annuity depending upon the nature of the original agreement) will begin at the particular retirement age for a smaller amount, according to the number of premiums that have been paid before the default and the number of years before the first annuity income becomes due. In other words, the usual cash value of the paid-up retirement annuity is dependent on the cash value at the time of lapse, less any indebtedness, and the number of years between the date and the retirement date.

Among the important factors involved in the premium charges for retirement annuities may be mentioned these features: the sex of the annuitant; the age of the annuitant at *nearest* birthday at issue; the deferment period or age at maturity; the frequency of premium payments during the deferred period, whether annual, semiannual, or quarterly; the frequency of annuity payments, whether annual, semiannual, quarterly, or monthly; and the kind of annuity selected, whether life annuity, refund annuity, or life annuity with payments for ten years certain.

Tables are frequently computed for annual premiums of $100 to show the monthly annuity under the various optional settlements—life annuity, refund life annuity, or life annuity with payments for ten years certain—for the various ages at issue and for the possible maturity or retirement ages for men and women separately. Where the basic contract unit is an even amount of premium, such as $100 annually or $10 monthly, the annuity income is an odd amount. Another method is to indicate for these various factors the premiums required to purchase a retirement annuity of an even amount, $10 or $100 monthly. In such a case the premium is an odd amount.

Some retirement annuity contracts provide for annual participation in the surplus during the premium-paying period up to the commencement of the retirement income payments. In such cases, at the end of each year while the policy is in force, there is accredited to the contract the share of the divisible surplus that is apportioned by the company.

If the applicant can pass a satisfactory medical examination, a disability provision may be purchased in connection with retirement annuity contracts issued by some companies. All companies, however, do not grant these disability benefits. A disability provision may guarantee that in the event the annuitant becomes totally and permanently disabled before a certain age (usually before age 60) or the prior maturity of the retirement income: (1) all future premiums becoming due on the contract will be waived during such disability up to age 65 for men and 60 for women; and (2) a disability income (usually for men only) may be available in some cases. The waiver of premium is a valuable feature in guaranteeing the continuance of the annuity in the event of the total and permanent disability of the annuitant, which might otherwise prevent the paying of the required premiums.

Another unique feature embodied in some retirement annuity contracts, though not in all, is the privilege of conversion to a life insurance policy.

The usual optional income plans available under retirement annuities do not include a joint life and survivorship settlement, but it is sometimes possible to arrange such an agreement.

The annual premium retirement annuity is particularly adaptable to the needs of individuals in the prime of life. It is of great value to various classes of persons in the earning years of life, such as those who cannot secure life insurance, those who do not need life insurance, and those who need the retirement annuity to provide for their own old age in addition to life insurance protection for their families.

For persons in moderate circumstances this retirement annuity provides a definite investment program whereby a certain portion of the yearly income may be safely and regularly invested to provide a guaranteed, nonfluctuating income to begin at some future date for retirement needs. It is a self-compelling plan for putting aside a definite amount at convenient intervals during the income-producing years to provide for deferred spending for the remainder of life without fear of decrease of default in the income. The high investment return during the life of the annuitant, as well as the permanency and certainty of the income, makes this annuity an invaluable self-pension plan.

This scientific individual pension plan is particularly well suited to the

needs of a large number of women who are engaged in remunerative work. In many cases such a system of consistently accumulating reserves during the prime of life to provide an income for retirement is more necessary for women than men. In general, the earning period for women is somewhat shorter than for men.

If a prospect dislikes binding himself to paying installment premiums, he may be interested in the plans offered by some companies under which the purchaser of such annuities may put up a cash deposit representing the discounted value of future installment payments.

In addition, the great flexibility during the deferment period makes this annuity eminently attractive to a very large number of individuals. The flexibility and numerous ramifications of this annuity make it admirably suitable for many persons who would not be interested in a rigid contract.

Aside from the matter of premium payments, the general provisions of the single premium retirement annuity are very similar to those of the annual premium contract.

Being issued in consideration of the receipt of the advance single premium of a specified sum, this contract guarantees to pay a life annuity of an optional type at regular intervals beginning on the anniversary date of the contract selected for retirement. Aside from the cash surrender feature, at any time prior to the commencement of such life income the annuitant usually may elect in writing, in lieu of the annuity otherwise provided: (1) to have the annuity income begin at an earlier or later anniversary date; and (2) to have a life annuity, refund life annuity, or life income with payments for ten years certain. The single premium retirement annuity is flexible as to the maturity date and the retirement settlement.

Since the total premium has been paid in advance for this contract, the death benefit is an important feature in assuring the annuitant against the liquidation of his investment during the waiting period in case of his premature death.

After the payment of the first annuity check to the annuitant, there is no death benefit if the *life annuity* is selected. If the *refund annuity* is chosen, there may be a death benefit after the annuity has been entered upon if at the time of the death of the annuitant there is any balance of the maturity value remaining with the insurer.

After the contract has been in force one year and prior to the due date of the first annuity check, the contract may be surrendered for its cash value. As the entire premium has been paid in advance, there is, of course, a greater cash surrender value in the early years of the contract than under the annual premium annuity where only a small part of the total premium has been paid.

The premium unit may be a single premium of a certain sum, such as $1,000, for which the income available at the various dates (depending upon the age of the annuitant at the date of the contract) is computed for men and women. The other procedure is to have the unit a certain monthly (annual, semiannual, or quarterly) income, such as $10 monthly income, for which the single premiums required for the various maturity dates and the various ages at issue are computed.

The particular appeal of this contract is for persons of the younger and intermediate ages who have on hand, either by accumulation or inheritance, surplus funds with which

to purchase a retirement annuity. This single premium retirement annuity is very suitable for such individuals who want to secure an annuity which provides optional income settlements to begin at a retirement age to be later selected and which provides cash values and a death benefit before the commencement of the annuity. These flexible options and privileges attract some persons to purchase the retirement annuity by a lump sum payment. The single premium retirement annuity is ideally adapted also for a person whose income varies from year to year and who does not like to bind himself to paying premiums annually over a considerable period of years. Successive purchases of this retirement annuity may be made whenever funds are available. These separate purchases made at different times may all provide for retirement at the same age, or various maturity dates may be selected at the option of the annuitant. *See* Annuities classified; Life annuities; Prospects for annuities.

Retirement income. This life insurance contract provides $1,000 insurance to age 65 with a monthly life income beginning at that time. The insured may at age 65 elect to receive this income under a choice of plans, or to take the cash surrender value, which will be equal to the amount of insurance. The contract is thus similar to an endowment at 65, with the difference that an income option is payable automatically unless the insured specifically requests the cash value.

Among the income options at maturity the following are common:

The automatic income provision, which will be put into effect if the insured does not request some other option, is on the cash refund plan. The amount of monthly income under this option, per $1,000 insurance, is $6.10 for men and $5.49 for women. Under this plan, there will be payable at the subsequent death of the insured the excess, if any, of the amount of insurance over the sum of all the income payments made by the company. Arrangement may be made whereby this lump sum payment to the beneficiary will be converted into a monthly income of the same amount as the insured had been receiving, payable until such lump sum payment and accumulated interest at three per cent is exhausted.

In lieu of this settlement, the insured may elect to receive a slightly larger income with the guarantee that the income will be paid for 120 months even though he does not live out that period. The amount of monthly income per $1,000 insurance under this option is $6.67 for men and $5.96 for women. Consequently, $1,500 insurance on a male life or $1,678 on a female life will produce an income of $10 a month under this option.

A third income option may be added on request, consisting of a longer life annuity, payable as long as the insured or beneficiary lives, the amount reducing by one-third at the first death. While both insured and beneficiary survive, the income must be paid jointly. A table showing the amount of income under this option, according to the age of the beneficiary at the maturity of the contract, is ordinarily shown in the policy. For example, if the beneficiary is the wife of the insured and is the same age as he, the initial income will be $6.18 per $1,000 insurance, or $9.27 per $1,500 insurance. If the wife dies first, an income of $4.12 per $1,000, or $6.18 per $1,500, will be continued as long as the husband lives; and if he dies first an income

of that amount will be continued as long as the wife lives. *See* Retirement annuities.

Retrospective reserve. One method of calculating the reserve in life insurance is to take the difference between the premiums collected in the past and the claims to policyholders already paid. Such a calculation will furnish you with the surplus, if any, of premiums on hand, which is the valuation of the reserve retrospectively. A distinction should be made between *retrospective reserve* and *prospective reserve.* The chief difference is that retrospective reserve views the accumulations of premium payments by looking backward, whereas prospective reserve is the viewpoint of looking forward to requirements in the future. *See* Prospective reserve; Reserve.

Return of premium. In many forms of insurance contracts, provision is made for the return of part of the premium under certain circumstances. A provision is sometimes contained in life insurance policies that, in the event of the death of the policyholder within a specified time, a part or all of the premium will be returned in addition to the payment of the face of the policy. In many contracts of property insurance, a return premium is payable upon the cancellation of the contract by either party. In some policies, a return premium may be payable for certain allowed periods of suspension of operations, such as in power plant insurance and automobile insurance. Again, some policies are issued for an estimated premium based upon the estimated payroll for the year, receipts of business, and so forth. In such cases, the policy usually provides for an adjustment of the premium either from monthly reports or from an annual report of the actual experience of the assured.

Return premium policy. Some companies issue a return premium juvenile insurance policy. This contract provides that in event of death of the child before a stated age, such as age 9, the premium plus three per cent interest will be returned to the payor. After the return premium age is passed, the face amount, usually $1,000 or multiples thereof, is payable. The effect of the return premium provision is to make the contract a graded amount policy at the younger ages. *See* Graded death benefit.

Reversionary annuity. *See* Survivorship annuity.

Reversionary beneficiary. A reversionary beneficiary is a person entitled to the proceeds of a life insurance policy, after the termination of the rights of a prior named beneficiary. The reversionary beneficiary may be said to have a vested interest to claims under a policy in event that there remain any proceeds to be collected after the termination of the claims of some other beneficiary. *See* Survivorship annuity.

Revival of policies. *See* Reinstatement.

Revocable beneficiary. If the policyholder reserves the right to change the beneficiary at any time, that beneficiary is revocable. When a beneficiary is named irrevocably, such a beneficiary has a vested or contingent right to the proceeds of the policy and the insured cannot change the beneficiary except upon the joint request of the insured and beneficiary.

Rider or endorsement. The words *rider* and *endorsement* are used interchangeably. These are agreements not contained in the policy, but which may be written on or attached to the policy. When they become a part of the contract, riders or endorsements alter, amend, extend, or restrict the coverage pro-

vided in the contract. Riders and endorsements are used to fit the policies to individual circumstances.

Rights of beneficiary. *See* Revocable beneficiary; Rights of insured.

Rights of insured. Most policies contain a provision concerning the rights of the insured. The following is typical of this provision:

> During the lifetime of the Insured and without the consent of the beneficiary, whether revocably or irrevocably designated, the Insured may receive every benefit, exercise every right and enjoy every privilege conferred upon the Insured by this Policy, unless otherwise provided herein or by indorsement hereon, and except that any irrevocably designated beneficiary can be changed only with the written consent of such beneficiary.

Right to change beneficiary. *See* Revocable beneficiary.

Risk. *Risk* may be defined as objective uncertainty in regard to injury, loss, damage, or cost. The word may refer to the subject matter insured or the chance or hazard of loss. The word *risk* or *peril* may be used to mean the causes of loss from which the insured is to be protected by the insurance contract. Such a risk, for example, in a life policy, is death, and, in a fire policy, is loss by fire.

In his excellent treatise on marine insurance, William Gow says:

> When a request is made to an underwriter to cover property by insurance, the act is usually expressed by saying that "a risk" has been offered to the underwriter. Risk thus comes to mean the liability of an underwriter under his contract. But the word "risk" is also used in a more limited sense to mean a peril or danger insured against, for instance, the risk of fire, the risk of jettison, etc.

An insurance contract usually specifies the risk insured against and may specifically exclude other risks. One of the conditions essential or necessary to the proper operation of insurance practice is that there must be a *risk* of real loss that is beyond the control of the policyholder or the insurance company to prevent or to hasten.

Risks may be classified in a number of different ways. Some of the major groups of risks are: (1) loss to property; (2) loss of life; (3) accident; (4) sickness; (5) old age; and (6) unemployment. In life insurance, although the general risk is premature death, the individual policyholders may be considered as (1) standard; (2) substandard; and (3) superstandard. In most forms of property insurance, risks are classified according to the degree of the hazard involved. Not all risks are insurable.

Some undertakings are contrary to law or public policy. Some of the state laws specify the kinds of risks that may be written under certain forms of insurance.

Risk selection. *See* Selection of risks.

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Salary savings insurance. *Salary savings insurance,* sometimes called *salary allotment* and *salary deduction,* is life insurance for the employees of concerns under a plan whereby the employees take out life insurance on a monthly savings basis, the premiums being automatically deducted from the pay envelope by the employer. The plan distributes the cost of the insurance evenly throughout the policy year. The money deducted from the salary of the employee is deposited as a premium payment by the employer with the insurance company carrying the insurance.

Under the salary savings plan, no medical examination is usually re-

quired, a feature that helps to reduce the cost of the insurance. All employees who apply for the insurance are covered. In some cases, a medical examination is required by state law, and then again it is required when the amount of insurance is quite large or when the applicant has reached a specified age. Excluding temporary insurance, virtually all forms of life insurance are issued. Most policies contain the disability provisions of the regular life insurance contracts.

Salary savings insurance is sometimes called *salary budget insurance,* and salary budget insurance is written largely on such classes of employees as executives, department heads, foremen, clerical, and skilled employees. The successful handling or selling of salary savings or salary budget insurance depends on securing the support and backing of the employer. If possible, it is a good thing to get the employer to contribute to the cost of the plan. When the plan is put on this basis, it is likely to be more satisfactory to all concerned. The salary budget or salary savings plan must be distinguished from group or wholesale insurance. *See* Group life insurance.

Sane or insane clause. *Sane or insane clause* refers to a clause in life insurance policies especially, stating that the insurer is not liable within a stipulated time for suicide committed while sane or insane. The phrase *insane person* includes idiot, lunatic, and deranged person. *Imbecility* refers to a type of mental disease of deficiency. *See* Suicide; Insane.

Satisfactory proof. *See* Proof of age; Proof of death.

Saving in mortality. *See* Mortality savings.

Savings bank insurance. Three states have a system of state savings bank life insurance. The plan was adopted in Massachusetts in 1907; in New York in 1938; and in Connecticut in 1941. The system operates through the insurance departments of the savings banks. The main purpose of the plan is to provide insurance of relatively small amounts at low cost. For more details on the operation of this system, see Bureau of Labor Statistics, U. S. Department of Labor, Bulletin 688 (1941), *Operation of Savings-bank Life Insurance in Massachusetts and New York.* For comparison of premium rates between the three systems and commercial life insurance companies, see Little Gem or Flitcraft Compend.

Schedule Q. *See* Q schedule.

Scientific insurance. *See* Legal reserve; Level premium.

Select and ultimate method. The select and ultimate method of computing reserves, devised by M. M. Dawson, is a substitute for the modified preliminary term method. It is based on the theory that properly selected business will show a very low mortality during the first five policy years. An ultimate table, such as the American Experience Table, will naturally show a higher mortality rate than a select table. The method, based on the select table idea, produces lower terminal reserves for the first four policy years, with the result that a considerable portion of the premium for expenses is released. *See* Full preliminary term plan; Modified preliminary term plan.

Selection against insurer. *See* Adverse selection.

Selection of risks. Certain risks are prohibited or excluded. Insurance companies do not accept all applications for insurance. The process of approving or rejecting a risk is known as *selection.* The agent can exercise a certain amount of selection by soliciting risks of good moral and finan-

cial standing. The underwriter will pass upon the acceptability of the risk.

In the selection of risks for insurance, the application plays an important part. Statements made by the applicant and the report of medical examiners or inspectors are vital factors in selecting risks. Information obtained from independent sources is often better than data furnished by the agent who depends on a commission on the business. Inspection reports cover such vital matters as character, reputation, financial condition, and general mode of life of the applicant.

As a result of the completed application, the medical examination, and the inspection report, many factors will be revealed that may make a risk undesirable. The following is by no means a complete list of the elements that characterize a risk of doubtful eligibility, but some of the leading uninsurable situations are mentioned: (1) people habitually in debt; (2) people who gamble; (3) heavy drinkers; (4) people who associate with law breakers; (5) persons of a bad or doubtful reputation; (6) people engaged in hazardous occupations; (7) persons who operate automobiles recklessly; (8) chronically unemployed people; (9) people with a bad moral hazard; (10) people with physical impairments; (11) where the family history is unsatisfactory; (12) the aviation hazard; (13) the unhealthy residence hazard.

Select lives. In life insurance practice, individuals who have just been selected by a medical examination are termed *select lives.* Many companies will reinstate or reinsure such lives in event of lapsation without a medical examination for a period as long as five years because the benefits of the medical examination appear to last that long. An applicant who is taken with favorable information as to age, health, family history, occupation, habits, personal history, and habitat is known as a *select risk.*

Select mortality table. A select mortality table is based on lives just selected by medical examination. The effect of this selection disappears about the sixth year. A select table may also mean a table made up of the experience of insured lives only in contrast to a general population table. Tables that are made up of the specific experience of particular groups, differentiated as to age of entry and duration of exposure, are sometimes called select tables. *See* Ultimate mortality table.

Self-destruction. *Self-destruction,* in an insurance policy, is equivalent to *suicide.* The typical policy clause reads:

> In event of self-destruction of the Insured, while sane or insane, within two years from the date hereof, the liability of the Company shall be limited to the premiums actually paid hereon.

It is not to be construed as being more comprehensive, and it has been held not to refer to an intentional killing of oneself while insane. *See* Suicide.

Semiannual premium. Ordinary life insurance premiums may be paid on the half-yearly basis. The charge is slightly more than on the yearly basis. The semiannual premium is usually 51 per cent of the annual premium.

Semiendowment. In a life insurance policy, when the pure endowment equals one-half the amount paid upon death, it is called a *semiendowment policy. See* Endowment insurance.

Semitontine. Under the *semitontine* plan of accumulating annual dividends for a period of time, a benefit of survivorship exists; but those who

lapse prior to the period of distribution receive cash, paid-up values, or extended insurance. A tontine policy is one in which the survivors share only in the dividends and not in the reserves of lapsed policies. As a result of the Armstrong Investigation, the tontine and semitontine systems were prohibited by law in New York State. Most states now prohibit the deferred-dividend plan, and companies distribute dividends on a yearly basis. *See* Tontine policy.

Senior mutual. *See* Mutual company.

Separate existence mortality. One system for handling the premium charge for the substandard risk is the use of a separate experience mortality table for the class of substandard risk involved. Under this plan premiums are based on a special mortality table that reflects the extra charge needed to insure such a class of risks as determined by past experience. *See* Advance-in-age plan; Lien system; Substandard insurance.

Settlement. The word *settlement* is used in a number of different ways in life insurance. Some policies contain a settlement clause that reads:

> In any settlement as a death claim, the policy must be surrendered to the Company and if the policy is in full force, any balance of the current policy year's premium remaining unpaid and any indebtedness to the Company hereon will be deducted.

A *settlement* is effected, to use the term in another sense, when the agent collects the full amount of the first premium, or when he receives part cash and takes a note for the balance, or when he takes a note for the full amount of the premium and such note has been deposited with the company.

A settlement is made when the policy is surrendered for its cash value, when a death claim is paid, or the contract matures as an endowment. Then there are lump sum settlements and settlements under the optional modes of settlement.

Settlement options. *See* Optional modes of settlement.

Seventeen Offices Table. In 1843 a table was constructed from the experience of seventeen insurance companies in Scotland and England. This table has been called the Actuaries' Table and the Combined Experience Table. It was used in the United States prior to the introduction of the American Experience Table in 1867. *See* American Experience Table.

Share and share alike. These words are found in the phrase, "jointly or the survivors or survivor of them, share and share alike." Under this form of settlement two or more persons are to receive equal shares of a certain sum or sums of money, and the share of any one dying shall pass wholly to a single survivor, or, if more than one survives, the shares shall be divided equally.

Share of gains. This expression refers to the participation of the policyholder in the share of the distributive surplus when a dividend or refund is paid to the insured. Such a share is the result of *gains* derived as a result of excess interest, mortality savings, or reduced loading expense.

Shortage. Under the level premium system the net premium is more than enough to take care of mortality. The loading may not, however, take care of the first-year expenses and provide the necessary reserve. There exists, then, a *shortage* in the full reserve. This shortage is taken care of by use of a full preliminary term reserve system, modified reserve plans, or by borrowing from the surplus of the company. In any event the shortage is made up by returns to the

reserve in the subsequent years when the expenses are less.

Short-term premium. *Short-term premiums* merely provide protection under the policy, and do not affect any investment or other contingency. They place the insurance in force, but endowment or other policy benefits are not operative until the payment of the regular premium; so they are applicable to all forms of insurance. In event the insured dies during the short-term period, an amount equal to the difference between an annual premium and the amount paid by the insured will be deducted in settlement of the claim.

On policies paying annually, the short-term period must be less than twelve months; on policies paying semiannually, less than six months; and on policies paying quarterly, less than three months.

When applicant desires to have the premium fall due on a date other than that on which the application is taken, the company will date the contract ahead and insure the applicant until such date under a short-term contract at the rates quoted below. An applicant may desire that the annual premiums on his policy be made payable at a certain time of the year; for instance, a cotton planter may prefer to have his premiums become due late in the fall, when his cotton has been marketed. Under such circumstances short-term insurance may be granted by endorsement on the regular policy. In all such cases the short-term premium must be collected in full either with the application or upon delivery of the contract. However, where a contract with short-term insurance is issued, the short-term premium only may be collected and notice will be mailed from the home office for first premium under the regular contract. No commission will be allowed on short-term premiums, but the regular first premium together with the gross short-term premium must be remitted to the company within the usual time permitted for such settlements. The regular premium will be that for the age of the insured at the deferred date selected. The short-term premium must in all cases be for less than one year, or if the regular premium is made payable semiannually or quarterly then the premium must be for less than six months or three months, respectively. The following table shows the nature and amount of the usual short-term rates:

Monthly Short Term Premiums per $1,000

Age	Regular	Disability	Age	Regular	Disability	Age	Regular	Disability
10	$.74		30	$.81	$.06	50	$1.33	$.18
11	.74		31	.82	.06	51	1.40	.19
12	.74		32	.83	.07	52	1.48	.21
13	.74		33	.84	.07	53	1.57	.22
14	.74		34	.85	.07	54	1.68	.24
15	.74	$.04	35	.86	.08	55	1.79	.26
16	.74	.04	36	.88	.08	56	1.91	
17	.74	.04	37	.89	.08	57	2.05	
18	.75	.04	38	.91	.09	58	2.21	
19	.75	.04	39	.93	.09	59	2.38	
20	.75	.04	40	.95	.10	60	2.57	
21	.76	.04	41	.97	.10	61	2.78	
22	.76	.05	42	.99	.11	62	3.01	
23	.77	.05	43	1.02	.12	63	3.27	
24	.77	.05	44	1.04	.12	64	3.55	
25	.78	.05	45	1.07	.13	65	3.86	
26	.78	.05	46	1.11	.14			
27	.79	.05	47	1.16	.15			
28	.80	.06	48	1.20	.16			
29	.81	.06	49	1.26	.17			

Signature to application. Certain signature requirements are usual to an application for life insurance. An application must be signed either by the applicant or the applicant's natural or legal guardian. Generally when the applicant is 15 years of age or older, a personal signature is required. When the insured is 14 years of age or younger, according to the laws of most states, the application must be signed by the guardian or parent.

Simple survivorship annuity. In the usual survivorship annuity, the annuitant does not receive the annuity until the death of the insured (purchaser). In some instances, although

not in common practice, a survivorship annuity may be payable to the annuitant in the event of the death of either of two named persons, such as the death of the son or the daughter. It is possible for the condition of survivorship to be contingent upon the death of two persons, such as the death of both the son and the daughter. This is a *simple survivorship annuity* because there is no stipulation as to the order of the survivorship except that the annuitant is to be the last survivor. *See* Survivorship annuity.

Single life annuity. If the duration of an annuity is contingent upon the continuance of the life of one person, it may be called a *single life annuity* to distinguish it from an annuity involving a combination of two or more lives. *See* Life annuities; Annuities classified.

Single premium. This is a policy (life insurance), under which, for the payment of one sum of sufficient amount, the company insures the risk and will never collect an additional premium from the policyholder. The entire premium is paid in one sum on the date of the policy, and no portion of the premium is returned in event of death. The *single premium* may be defined as the individual share of an amount collected from a large number of persons at a given age, which, together with interest at an assumed rate, will provide exactly for the payments of the total death claims occurring in each year thereafter, in accordance with the mortality table, up to the end of the term of years for which the insurance is taken.

It is a well-known fact that the natural premium for various ages rapidly increases as the age of the individual advances. Since there is a possibility that the applicant will become uninsurable and unable to pay the increased premium, there has developed, in the practice of life insurance, a process of rate making in which a premium rate is calculated and payable in a lump sum, which provides insurance for a stated term of years. This rate is commonly referred to as the *single premium* rate.

An illustration will help to make the meaning of the single premium clear. For example, let us ascertain the single premium rate for $1,000 insurance, at age 35, covering a five-year term. Discount tables are as follows:

Year	No. Dying	Discount Factor	Present Value Death Claims
1......	732	.970874	$710,679.76
2......	737	.942396	694,693.25
3......	742	.915143	679,031.64
4......	749	.888487	665,476.76
5......	756	.962609	652,132.40

In computing the above, it will be noted from the American Table of Mortality that the number living at the beginning of the period, of age 35, is 81,822, and that the present value of death claims is secured by multiplying the number dying during the year by $1,000, and this product by the discount factor found in the discount table under the 3 per cent column. The present value of total death claims divided by the number living at the beginning of the period gives the single premium for the five years, or $41,578.

This single premium amount can be proved by working out in detail the separate steps in the process of calculation of the five years for which the policy runs. The steps in the process would be as follows:

Gross premiums collected	
$41,578 × 81,822	$3,402,016,831
Plus interest at 3%	102,060,505
	$3,504,077,336
Less death claims first year	732,000,000
	$2,772,077,336

Plus interest at 3%	83,161,660
	$2,855,238,996
Less death claims second year ..	737,000,000
	$2,118,238,996
Plus interest at 3%	63,547,170
	$2,181,786,166
Less death claims third year ...	742,000,000
	$1,439,786,166
Plus interest at 3%	43,193,585
	$1,482,979,751
Less death claims fourth year ..	749,000,000
	$ 733,979,751
Plus interest at 3%	22,019,392
	$ 755,999,143
Less death claims fifth year	756,000,000

In their excellent book, *Insurance Principles and Practices,* Robert Riegel and H. J. Loman very ably summarize the merits and shortcomings of the single premium policy as follows:

It is evident that the advantages of the single premium policy are:

1. The insured is free from the trouble of providing for the payment of the annual premiums otherwise required for a long term of years or for the remainder of life.

2. The insured has the satisfaction of knowing that his object is definitely accomplished and that no inability on his part to pay premiums in the near future can defeat that object.

3. The insured obtains the benefit of compound interest on a large sum, which makes the aggregate which he actually pays out less than it otherwise would be.

4. If the insured lives to an advanced age the amount he pays as a single premium is less than the total he would have paid in the form of annual premiums.

The disadvantages to the average person of the single premium method, however, are so great that it is seldom used.

1. The sum necessary for a single premium is so large that few persons are willing and able to pay it at once.

2. If the insured has the sum necessary, he may be able to earn a larger rate of interest on it than that earned by the insurance company. In doing so he usually takes a greater risk, however.

3. If the insured dies at an early age, he has expended a great deal more for protection than if the premium were paid annually.

Single premium annuity. *See* Annuities classified; Life annuities; Retirement annuities; Prospects for annuities.

Sinking fund. One way of paying off a debt is by a *sinking fund,* that is, the accumulation by periodic investments at interest of a sum large enough to meet the debt when it falls due. Sinking funds are used by organizations to provide money for old age pensions. Any kind of future obligation, for that matter, can be taken care of by means of a sinking fund. Public debts are sometimes paid off by means of a sinking fund.

It is quite important to distinguish between a sinking fund and amortization, which is another way of paying off a loan or a financial obligation. Under the amortization method, the debt is paid off in installments that are large enough to take care of not only the principal but the current interest, whereas the sinking fund installments take care of the principal only. Furthermore, under the sinking fund arrangement, the debt stays constant until the sinking fund arrangement is completely made up, but under the amortization process the principal gradually diminishes with each installment payment.

Serial mortgage payments are in the nature of an amortization. The reserve in life insurance is sometimes thought of as a sinking fund for meeting future death claims. Endowment policies are often spoken of as a combination of term insurance

and a sinking fund. *See* Amortization.

Social security. The expression *social security* is a broad one and covers in its largest meaning many forms of insurance as well as other forms of protection against certain hazards of life. The leading forms of insurance provided under social security are: (1) workmen's compensation; (2) unemployment compensation; (3) health insurance; and (4) old-age and survivors' insurance. Other forms of "protection" provided under social insurance include: (1) public assistance to the aged, blind, and to dependent children; (2) maternal and child health and welfare services; (3) vocational rehabilitation; and (4) public health services.

Social security also gets its name because most of the insurance and other protective devices granted are operated by the state. Quite often the system is compulsory for all those who come within the scope of the law. The principal type of social security that relates to privately operated life insurance is the old-age and survivors' insurance. Under the present Federal Social Security Act, benefits are paid for an old age pension to the worker. In addition there are benefits to the wife, widow, children, and parent, as well as a lump sum death benefit. These benefits are relatively small and need to be supplemented by life insurance or annuities. For a detailed description of these benefits, including tables showing amounts payable, see the Little Gem or Flitcraft Compend. For excellent reading references covering the whole field of social security, see *Some Basic Readings in Social Security,* issued by the Federal Security Agency, Washington, D. C.

Sole owner beneficiary. There are at least two ways by which the beneficiary may be made the sole owner of a life insurance policy. Some companies use an *owners' form* of application. Another method is to have the policyholder execute an absolute assignment by which he gives up all incidents of ownership and makes the policy payable to the beneficiary without any limitations or conditions.

Solicitor. An insurance *solicitor,* within the meaning of the insurance laws of most states, is any person employed by a duly licensed insurance agent or broker to solicit such insurance business in behalf of such agent as this agent is licensed to engage in. *See* Agent; Broker.

Source of prospects. One of the problems confronting the average insurance agent is where to find prospects. The source of names as prospects depends upon the type of insurance to be sold. The following list, however, outlines the major sources of prospects for insurance of all kinds:

I. Directories of All Kinds:
   1. Telephone
   2. Classified trades
   3. Red book or Blue book
   4. Dun's or Bradstreet's
   5. Vocational
   6. Social Register
   7. Directory of Directors
   8. School and college
   9. City or town
   10. Gazetteers

II. Public Records of All Types:
   1. Tax lists
   2. Marriage licenses
   3. Automobile registrations
   4. Property transfers
   5. Public notices
   6. Building permits

III. Organizations and Associations:
   1. Church
   2. Educational
   3. Civic
   4. Political
   5. Professional societies
   6. Alumni
   7. Lodge and fraternities
   8. Social

9. Trade unions
10. Charitable institutions

IV. Newspapers:
1. Birth notices
2. Engagements
3. Marriages
4. Deaths
5. New incorporations
6. Partnerships
7. Promotions
8. Mortgage lists
9. Real estate transfers
10. Inheritances

Sources of prospects may be classified as primary or secondary. A primary list of prospects would be the following:

1. Relatives
2. Friends and acquaintances
3. Former associates
4. Neighbors or former neighbors
5. People with whom you do business
6. Members of organizations to which you belong
7. Professional people you know
8. Old policyholders, for the following reasons:
   a. Their needs for insurance change from time to time.
   b. They have already given evidence of appreciation of insurance.
   c. They are favorably inclined both to you and your company.
   d. They have already demonstrated their insurability.
   e. You know much about them from previous contacts and data.

The prospecting work habit involves not only looking into all the primary sources of prospects, but, when necessary, a utilization of every conceivable secondary source. Among many secondary sources of prospects the following are important:

1. Newspaper leads
2. Trade journals and periodicals
3. Club membership lists
4. Classified lists and directories
5. Public records
6. Referred leads, chiefly from:
   a. Old policyholders
   b. Friends and relatives
   c. Influential people
7. Leads from the application, which may be derived from:
   a. Place of residence, giving neighbors' names
   b. Place of business, giving names of associates
   c. Occupation, suggesting others in the same line
   d. Names of beneficiary and/or contingent beneficiary
   e. Names of relatives, such as brothers and sisters
   f. Names of physicians
   g. Names of references, if any

Sources of profits. For life insurance companies the sources of profit are interest, mortality, loading, surrenders and lapses, and miscellaneous. If the interest actually earned is higher than the assumed, in so far as loading is lower than the expected, profits are said to accrue. To the extent that the cash value paid on surrender may be less than the net reserve maintained, a small profit may be made. Miscellaneous gains may arise from disability benefits. Mortality accounts for about 50% of the profits; interest about 37%; loading around 4%; and other sources of profits are 9%. Profits are small, if any, in nonparticipating insurance where more modern mortality tables are used and interest assumptions are close. Participating policies refund the profits, if any, to the policyholder in the form of a dividend.

Special contingencies. Life insurance companies usually set up special reserves to take care of adverse fluctuations in mortality because of wars and epidemics. Special reserves are also maintained to provide against extraordinary asset losses. Contingency reserves may be needed in the

and a sinking fund. *See* Amortization.

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Special contingencies. Life insurance companies usually set up special reserves to take care of adverse fluctuations in mortality because of wars and epidemics. Special reserves are also maintained to provide against extraordinary asset losses. Contingency reserves may be needed in the

development of disability income underwriting.

Special maturity options. *See* Optional modes of settlement.

Specified disabilities. This is a clause in the disability provisions of life insurance which provides that certain kinds of disability shall be deemed as total. Such a clause usually reads:

> Without prejudice to any other cause of disability, the entire and irrecoverable loss of the sight of both eyes, or the severance of both hands at or above the wrists, or of both feet at or above the ankles, or one entire hand at or above the wrist and one entire foot at or above the ankle, will be considered as total and permanent disability for the purposes of this agreement.

Speculative insurance. Insurance policies written on the lives of the sick, or prisoners, or rulers of nations as wagers were termed speculative. The concept *speculative* may be applied to any policy that is in the nature of a wagering contract and without an insurable interest. *See* Insurable interest.

Spendthrift clause. Many of the state laws provide for the exemption of the proceeds of a life insurance policy from claims of creditors of the beneficiary. Such agreements, when inserted in the life insurance policy, are commonly known as the *spendthrift clause.* An agreement may include a provision, for example, to the effect that its terms are not subject to transfer, anticipation, communication, or encumbrances by any beneficiary, and shall not be subject to the claims of creditors of any beneficiary other than the insured, or subject to any legal process against any beneficiary other than the insured. Such an agreement may also provide that the benefits accruing to any beneficiary other than the insured shall not be transferable nor subject to commutation or encumbrances, or to legal process.

Standard Annuity Mortality Table. This table, developed by Frank D. Kineke, is known as the 1937 Standard Annuity Mortality Table. It is an aggregate table, prepared in this manner because recent studies on annuitants show that selection as between recent entrants and ultimate experience ceases to operate after the first year or so. In drawing up this table, Mr. Kineke stated that it is intended for the calculation of annuity rates "for all forms of contracts involving annuities—individual immediate annuities, deferred annuities, retirement annuities, group annuities, settlement options and continuous income insurance policies."

The result of the use of this new table, now used by most companies for the calculation of annuity rates, has been an increase in the premiums charged for annuity contracts. If an annuity table shows a lower mortality rate at given ages than other annuity tables, then the price of an annuity under the "lower mortality" table will be the highest on a comparative basis. The lower death rates at annuity ages will be observed from the following comparison of the Standard Annuity Table with others that have been in use.

MORTALITY RATES PER 1,000 MALES

Age	1937 Standard (aggregate)	American Annuitants (1920, ultimate)	Combined Annuity Table, 1928
60.....	19.75	23.72	23.02
65.....	28.75	36.73	34.25
70.....	41.75	53.05	50.80
75.....	60.41	76.98	75.06
80.....	87.16	111.65	110.18
85.....	124.87	161.12	160.30
90.....	177.13	230.04	230.17

Standard disability provisions. These are total and permanent disability

benefit provisions that are written in connection with life insurance. They are called *standard* because these provisions were recommended as the result of committees appointed to study the problem. Some of the more important provisions that are "standardized" in the total and permanent disability coverage are: (1) the meaning of disability; (2) specified disability listing; (3) age limitation; (4) notice of disability; (5) proof of the continuance of disability; (6) the amount of the benefits; (7) exclusion of certain risks; (8) waiting period; and (9) use of a prorate clause.

The problem of defining satisfactorily what constitutes disability is a wide open question, and apparently no satisfactory definition has yet been devised. The standard provisions define disability as "incapacity to engage in any occupation for remuneration or profit," which is much more restricted than "inability to follow one's own gainful occupation." *See* Specified disabilities; Prorate clause; Ninety day clause; Total and permanent disability provisions; Proof of continuance.

Standard Industrial Table. Most of the laws of the various states make provision that the commissioner may vary the standards for valuation of industrial insurance. Pursuant to such provisions, the use of a new Standard Industrial Table of mortality has been encouraged. The rates of mortality on industrial insurance have shown consistent improvement over a long period of years, and this table is not now representative of mortality being experienced under such policies. Neither the American Experience Table nor the American Men Ultimate Table is representative of current industrial mortality. The laws of the various states are not uniform with respect to valuation provisions covering industrial policies. This prevents the use of any table in many states which does not produce reserves at every age and duration at least as large as those developed by the American Experience Table. A comparison of the rate of mortality between the old standard industrial table of 1906 and the new 1941 table for select ages is shown in the following tabulation:

DEATH RATES PER 1,000

Age	1906 Standard	1941 Standard
1..........	81.82	31.54
5	9.46	3.63
10	3.43	2.60
15..........	3.58	2.86
20..........	6.90	3.93
25..........	9.52	4.73
30..........	11.60	5.39
35..........	12.98	6.58
45..........	17.34	12.32
55..........	28.46	24.75
65..	56.12	53.33
70..........	82.47	74.56
75..........	122.97	106.26

Standard nonforfeiture law. *See* Nonforfeiture options.

Standard provisions. There are standard provisions for disability clauses and there are standard provisions for life insurance policies. Under the existing state laws, certain provisions, called standard provisions, are prescribed by law and must be contained in all policies. The state insurance codes do not always stipulate what the precise wording of these provisions must be, with the result that some difference will be found in the policies of the various companies in the exact phrasing of these standard provisions. Generally these standard provisions tend to promote policy uniformity. An examination of the various state statutes will show that the following are the more common standard provisions that must be contained in every policy of life insurance: (1) premiums must be paid in advance; (2) a grace period of one month; (3) policy and application

constitute the entire contract; (4) incontestable after two years; (5) statements of applicant are representations and not warranties; (6) correction of age of insured if misstated; (7) annual participation in surplus; (8) policy loans; (9) nonforfeiture values; (10) tables of loans and nonforfeiture values; (11) right of reinstatement; (12) settlement of claims in a specified time; (13) table showing installment settlements; (14) a title on face and back of policy correctly describing the contract.

These are the usual required standard provisions. Certain other provisions may be permitted, such as clauses covering the powers of agents, assignment, suicide, aviation and war risks. Other provisions, formerly included in some contracts, are now prohibited. Forfeitures, limitation of time to bring a suit in action or equity, or diminishing the true equity of the policy on settlement are among provisions that are not allowed.

Standard risk. *See* Substandard insurance.

Standard valuation law. *See* Valuation standards.

State insurance. Insurance that is organized and operated by a government is known as *state insurance.* In Wisconsin a state insurance fund was organized in 1911. The savings-bank life insurance systems in Massachusetts, New York, and Connecticut are, perhaps, partially state insurance systems. National Service Life Insurance is state insurance in the political science meaning of the word *state.* Insurance provided under the Federal Social Security Act is state insurance in the same sense. State insurance is contrasted with private carrier insurance in that individual companies are not permitted to write the business.

Statement of age. *See* Age of insured; Misstatement of age.

State regulation. *See* Regulation and supervision.

State supervision. *See* Supervision and regulation.

State tontines. The originator of the tontine plan, Lorenzo Tonti, a Neopolitan by birth, had suggested as early as 1653 that a state loan (tontine) be used to restore the finances of France, but the first state tontine was not used there until 1689. It called for the collection of 14,000,000 livres to be secured by individual payments of 300 livres to the state, and a payment for life was to be given the purchasers for which a certain per cent of the total was to be used yearly. The loan purchasers were divided into classes according to age, and the entrants in the older ages secured higher interest. Each class was a closed group, and the survivors in each age group received yearly the pro rata amount of interest applicable to their group. The income secured from the tontine, therefore, increased with the advancing years of the survivors. The fund reverted to the state after the death of the last survivor. Seven years later a second tontine was employed by France.

The tontine idea spread to other countries even before the adoption of the first tontine by France. State schemes in the nature of tontines were resorted to in the Dutch city of Kampen (1670), in Amsterdam (1671), in Groningen (1671), in London (1674), in Brandenburg (1698), and in other jurisdictions on the continent. Far into the eighteenth century tontine loans were used by states, and private individuals also began to form tontines, particularly in France.

In general, these plans amounted to schemes for granting a form of life annuity in which the surviving annuitant in certain age groups profited by the early death of a member of

that group. Regardless of criticisms that can be made of these plans, it may be said that some consideration was given to the probable duration of life, that they were based on the idea of association, and that these plans were valuable sources of mortality statistics for later studies.

Status clause. This is a war clause introduced into life insurance contracts which excludes *all* deaths occurring while in military or naval service of a nation at war. The objection to such a strict provision is that it suspends protection entirely both as to the extra and normal hazards of death. The true aim of a war clause is to eliminate only the *extra* risk because of war. *See* Result clause.

Statutory requirements. This term may be used to describe all of the provisions of the insurance code. Deposits required from insurance companies would come in this area. In a more limited sense, however, the expression is used to refer to the provisions that what the law requires must be contained in all life insurance policies. *See* Standard provisions.

Step rate plan. On the step rate plan, the cost of the insurance increases, as a rule, with the age of the policyholder. Some fraternal societies and assessment associations operate on this basis. The usual term policy is written on a level premium step rate plan. A good idea of how the step rate system works may be obtained from a comparison of the premiums for a life expectancy term policy, and the premiums for an ordinary life policy of $1,000 on a nonparticipating basis.

Age	*Term*	*Life*
10 (49)	$ 8.91	$11.85
11 (49)	9.07	12.05
12 (48)	9.15	12.26
13 (47)	9.24	12.48
14 (47)	9.43	12.71
15 (46)	9.53	12.95
16 (45)	9.62	13.20
17 (45)	9.86	13.49
18 (44)	9.98	13.82
19 (43)	10.10	14.17
20 (43)	10.38	14.53
21 (42)	10.52	14.87
22 (41)	10.66	15.24
23 (41)	11.00	15.63
24 (40)	11.17	16.03
25 (39)	11.35	16.46
26 (39)	11.76	16.91
27 (38)	11.96	17.40
28 (37)	12.17	17.90
29 (37)	12.67	18.44
30 (36)	12.92	19.00
31 (35)	13.18	19.56
32 (34)	13.45	20.15
33 (34)	14.08	20.78
34 (33)	14.40	21.45
35 (32)	14.74	22.14
36 (32)	15.50	22.95
37 (31)	15.90	23.79
38 (30)	16.33	24.67
39 (29)	16.78	25.59
40 (29)	17.74	26.57
41 (28)	18.28	27.59
42 (27)	18.85	28.65
43 (26)	19.45	29.79
44 (26)	20.91	30.98
45 (25)	21.81	32.25
46 (24)	22.75	33.57
47 (24)	24.53	34.96
48 (23)	25.61	36.42
49 (22)	26.76	37.98
50 (21)	27.97	39.62
51 (21)	30.19	41.36
52 (20)	31.58	43.19
53 (19)	33.05	45.14
54 (19)	35.68	47.20
55 (18)	37.36	49.39
56 (17)	39.13	51.70
57 (17)	42.25	54.15
58 (16)	44.27	56.76
59 (15)	46.39	59.52
60 (15)	50.10	62.45

It will be noted from the above table that at age 30, for example, the premium for the term expectancy is less than that for the ordinary life, a sum of $12.92 as against $19.00. Each year, on the assumption that the term rate "steps up," the premium gets larger until at between ages 42 and 43 the premium reaches the level premium for the ordinary life policy. Term expectancy policies may, of

course, be written on the level premium basis. The comparison made here was simply for the purpose of contrasting the step rate idea with the level premium system.

Stipulated premium insurance. The term *stipulated premium insurance* is used in assessment insurance. Under this plan, a stipulated rate is charged the policyholder (usually the smallest possible charge), but an increased payment may be demanded if necessary.

Stock company. A stock life insurance company is one owned and controlled by stockholders, who provide the capital and share in profits or losses. Such companies may issue either participating or nonparticipating insurance or both if the laws of the states in which they operate permit this practice. The leading stock life insurance companies are the Aetna, Connecticut General, and the Travelers. *See* Nonparticipating insurance.

Stock rate. Premium rates in life insurance are charged according to participating or nonparticipating plans. Participating insurance is usually written by mutual companies, and the rates are said to be *mutual rates.* On the other hand, most stock companies write nonparticipating insurance and the rates are called *stock rates. See* Nonparticipating insurance.

Straight life annuity. *See* Life annuities.

Straight life insurance. A straight life insurance policy is one in which the policyholder pays a specified fixed premium each year throughout his life. It is often called *whole life* or *ordinary life* insurance. These terms are in use to contrast this form of life insurance with endowment or limited pay life insurance.

Submarine operations. *See* War clauses.

Subsequent premiums. After the first premium has been paid and the policy placed in force, all later premium payments are called *subsequent premiums.* Policyholders may change subsequent premiums from an annual basis to a semiannual, quarterly, or monthly basis.

Substandard industrial table. Industrial life insurance companies have a table that reflects the variation in mortality for substandard risks from standard insured. The following section shows the comparative substandard mortality rate for selected years per 1,000 persons with the standard rates for 1906 and 1941.

Age	1906 Standard	1941 Standard	1941 Substandard
1........	81.82	31.54	41.19
5........	9.40	3.63	4.77
10........	3.43	2.60	3.42
20........	6.90	3.93	8.81
30........	11.60	5.39	11.25
40........	14.65	8.71	16.71
50........	21.64	17.55	28.19
60........	39.21	36.08	48.84

It will be noted that substandard rates, especially after age 20, are not as favorable as standard rates back in 1906.

Substandard insurance. Risks, generally speaking, which a company will not accept by the regular method of selection and at the usual rates, are called *substandard* risks. It has been found that about twelve per cent of all those applying for insurance are uninsurable at standard rates. Of these about one half or six per cent of the total business submitted is insurable at substandard rates. Therefore, the agent might expect to be able to place this proportion of his business, which would otherwise be lost. Substandard insurance supplies protection to individuals formerly unable to secure it and for this reason constitutes an im-

portant public service. In some cases, substandard risks may be insured by changing the coverage or charging higher premium rates. In connection with life or health insurance, if the life of an individual is impaired in some way or is under the average risk, the risk is said to be substandard. There are many factors that may cause a life risk to be classified as substandard and hence not insured at regular rates. Some of these are as follows: (1) hazardous occupation; (2) illness or disease; (3) overweight or underweight; (4) bad habits; (5) unfavorable family history; (6) unfavorable personal history; and (7) unhealthy localities.

The fact that a person is physically substandard does not mean that his life is uninsurable. Insurance companies have devised a number of practical ways of handling the extra hazard. Obviously, if the premium rate is high enough, the extra risk involved can be taken care of. In some kinds of substandard risks, the additional hazard increases with age; in others, it decreases with age; and, in some cases, the additional hazard remains constant with age, being independent from it.

Some of the various methods used to take care of substandard risks may be described briefly as follows:

1. One way of handling the substandard risk is to write the risk at an increased age. A man whose real age is 30 may be charged the premium for a man 35 years old. This increase in age plan is suitable where the extra mortality is of a certain increasing kind and when the additional mortality risk continues to increase indefinitely at an accelerating pace.

2. Another method is to charge a flat extra premium. One company that uses this method describes the plan as follows:

> An extra premium such as five dollars is added to the regular premium. This method is used for applicants engaged in occupations where the extra mortality arises from accidents. The flat extra premium for a limited period is also used where there is a temporary hazard for a number of years following a surgical operation or other physical condition. When the extra premium is temporary, the policy provides that the premium shall automatically become standard when the extra premium period expires. Some cases treated in this way carry a smaller extra premium if the policy is an Endowment for 20 years or less, than if some other plan is requested.
>
> Policies issued with a flat extra premium contain standard nonforfeiture values except that the extended insurance feature is eliminated if the extra premium is more than $5.00 per thousand of insurance.

The basis on which this method is used is the assumption of the continuance of a constant extra mortality hazard.

3. An extra percentage table may be used to measure the extra mortality, really a special mortality table. Some rate manuals contain several of these tables, which indicate whether the risk is one with 125 per cent expected mortality, or 150 per cent expected mortality, and so on. Risks with these additional percentages pay an extra premium based on a mortality table of 125 per cent or a mortality table of 150 per cent. This scheme seems to be the most scientific and is probably more widely used today than any one of the other methods.

4. A lien may be placed against the policy for a period of time. If the extra mortality involved is likely to decline, such as in certain unfavorable family history cases of tuberculosis, this plan has its advantages. The lien can be removed when the

extra mortality risk has apparently disappeared.

5. The policyholder may be restricted to a certain type of insurance policy.

6. In participating insurance, dividends may be reallocated to impaired risks.

Substitutions. A *substitution* is the replacement of one policy by another. Such a practice may or may not be a service to the policyholder. That such might be the case is quite clearly evidenced by the following instructions on the subject of substitutions by one company:

> When an agent of the Company solicits an application on the life of a policyholder of the Company, he must make sure that the policyholder intends to maintain his old policy. If the old policy is lapsed or surrendered within six months after the date of the new policy, in the absence of a satisfactory explanation, the Company must assume that the agent has disregarded the above rule, and in effect, substituted a new policy for an old one, occasioning loss to the insured and to the Company. The Company will therefore charge back to the agent the full amount of the commission paid to him on the new policy.
>
> Where a loan on an old policy is made to supply the money for the first premium on a new policy, the commission on the new policy may, in the discretion of the Company, be held in suspense until the next premium on the old policy has been paid in cash.
>
> The rules affecting substitutions are necessarily strict and may occasionally work an unforeseen hardship on an agent. The Company will, therefore, take into account unusual circumstances surrounding a particular case of substitution or apparent substitution. A letter giving a full account of the unusual circumstances should be sent to the Company before the application is written, if possible, otherwise it should accompany the application.

Suicide. *Suicide* means self-destruction and may be committed while sane or insane. In life and accident insurance policies, however, it is usually used to mean intentional self-destruction where it is not qualified in any way. It is sometimes stated in the policy in this form: "if the insured shall die by his own hand."

In accident insurance, unless specifically so provided by the policy, suicide while sane or insane is not considered an accident in a policy covering death by accidental means (*Wooklock v. Aetna Life Ins. Co.* (Mo.), 225 S. W. 993).

At the present time, some provision is usually made in the life insurance policy regarding suicide. However, cases under early policies have maintained that suicide while sane is an implied exception in all policies with insurance payable to the insured, his estate, personal representatives, or assignees.

Provisions in the policy may except suicide whether sane or insane, but many provisions limit this exception to a certain number of years after the policy has been in force. In other words, the policy may stipulate that it is void if the policyholder (within two years) commits suicide, whether sane or insane. Such a provision does not prohibit recovery in case of suicide after this specified period. In other policies, only a limited amount may be paid in case of suicide, such as an amount limited to the assessments paid, to the legal reserve or equitable value of the contract, or to some portion of the face of the contract.

However, it is generally the rule that there can be no recovery on insurance obtained with the intention to commit suicide. In Missouri, the insurance practice in regard to suicide is governed by the statute specifying that, in life insurance policies

"issued by any company doing business in this state, it shall be no defense that the insured intended to commit suicide when he took out the insurance." All provisions in a policy to the contrary are voided by this statute. This statute has been held applicable to suicide, whether sane or insane. In one case, this statute was held applicable to loss of life by suicide in accident policies; but the later Missouri cases hold it applicable to accident policies only in the case of suicide while insane, suicide while sane not being considered an accident. Mutual benefit associations do not come under this statute.

Such a statute is also in existence in Colorado prohibiting the suicide of the insured to be a defense and is applicable to mutual benefit associations. A Georgia statute specifies that suicide (defined to mean intentional self-destruction while sane) relieves the insurance company from liability under the policy. Under this statute, however, suicide does not include an accidental act or an act of an insane person causing self-destruction. The Texas statute has been asserted to mean that the suicide of the insured cannot be used as a complete bar to an action on the policy. A Utah statute, following closely the Colorado law, specifies that, after the policy has been in force one year, the suicide of the insured is no defense "whether said suicide was voluntary or involuntary, and whether said policyholder was sane or insane." This is applicable to accident policies and so prevents the defense that suicide while sane is not an accident. Under a Virginia law, suicide cannot be a defense on a life policy; but a limited settlement is allowed if insured commits suicide within one year after the inception of the policy.

The incontestable clause limits the suicide clause (excepting liability for suicide) and makes the insurance company liable after the termination of the period in the incontestable clause. It generally makes the suicide clause operative only during this limited period. The company is not liable for suicide within this period. After a policy has become incontestable, and where not specially excepted, suicide may not be a defense.

Where the word *suicide* is used (without any qualification) to refer to intentional self-destruction, it does not include an accidental act on the part of the insured which unintentionally causes his death. Even the qualified words *voluntary or involuntary* do not usually make the exclusion applicable in the absence of gross negligence to accidental self-destruction, such as, for example, accidental poisoning, overdose of medicine, accidental shooting while cleaning gun, accidental tearing of bandage from wound.

Where suicide is not excepted or is excluded by general terms only, suicide while insane (unless so provided) does not prevent recovery. The person must have been insane at the time of suicide to be excused under such a policy provision or insane at other time. The insanity must have been such that the mind of the insured was so deranged as to make him not capable of making rational judgments, or not able to apprehend the moral or natural consequences of his act.

The Supreme Court of the United States has placed emphasis upon the moral consequences of the act and says that, if a man is so mentally deranged that he understands the physical nature of the act but not its moral aspect, it is not death by

suicide within the meaning of such a policy.

In order to overcome liability for suicide, in view of the court decision interpreting the unqualified exception of suicide to mean that suicide while insane was not excluded, a more restricted phrase was inserted in the policy that the insurer is not liable for suicide committed while "sane or insane." Under this exception, it has been held that the insurer is not liable for suicide while insane. In this case (*Bigelow v. Berkshire Life Ins. Co.*, 93 U. S. 284, 23 L. Ed. 918), it was asserted that the policy was void if the insured knew that he was taking his life but was "unconscious of the great crime he was committing. His darkened mind did not enable him to see or appreciate the moral character of his act, but still left him capacity enough to understand its physical nature and consequences."

Under this opinion, several cases have held that, even with the sane or insane clause, there is no exception if the insured is so mentally deranged as to be unable to see the physical nature and consequences of his act (*Hart v. Modern Woodmen of America*, 60 Kan. 678, 57 Pac. 936, 72 Am. St. Rep. 380), although other courts have held that the degree of insanity is immaterial. Usually, the question of the cause of the mental derangement is not considered, except in cases where the particular policy wording brings up the question as an exclusion to "suicide, sane or insane, unless it be committed in delirium resulting from illness, etc." *See* Violation of law.

Suit or action against company. Some life insurance policies contain a provision that reads: "No action shall be brought against the company under this policy unless commenced within six years from the time when the cause of action accrues." This is a short statute of limitations in so far as the policy is concerned. The time for limiting a suit or action in law or equity is generally fixed by the state insurance laws, and policies cannot contain a provision that is less than the state statute.

Sum insured. Under a policy, in any policy year, the *sum insured* is the value of the guaranteed payments and benefits stipulated to be made or granted if it should mature within such policy year. In many forms of insurance, the sum insured is stated in the policy. In life insurance, the amount of money that is payable at death or upon the maturity of the policy is often called the sum insured. *See* Face of policy.

Superintendent of insurance. *See* Regulation and supervision; Supervision and regulation of insurance.

Supervision and regulation of insurance. The Constitution of the United States does not make any definite provision for the federal control of the insurance business. The word *insurance* is not mentioned in the Constitution. The commerce clause of the Constitution has not been construed by the United States Supreme Court as covering insurance until recently. Insurance has been held not to be interstate commerce until the decision in the South Eastern Underwriters Association case on June 5, 1944. Supervision and regulation of insurance, then, to the extent that it exists, has been under the control of the various states. The states can regulate the insurance business, both its corporate and its quasi-public nature.

The insurance business is generally transacted by incorporated companies, entitled to write insurance by reason of the franchises or privileges secured from the states. The incorporation act prescribes the purposes

of the corporations and the means of carrying out such purposes, which are within the control of the state. In addition, since it is recognized that the insurance business involves public interest or public trust, laws controlling insurance companies are considered as a legitimate exercise of the police power of the state.

In nearly every state in the Union there is some provision for the supervision and regulation of insurance. The extent and details of these statutes are not uniform; but, it was pointed out by Justice McKenna, in *German Alliance Insurance Co. v. Lewis*, 233, U. S. 389, "that there was quite early (in Massachusetts in 1837, in New York in 1853) a provision for what is known as unearned premium fund or reserve; then came limitation of dividends, the publishing of accounts, valued policies, standards of policies, prescribing investment, requiring deposits in money or bonds, confining the business to corporations, preventing discrimination in rates, limitation of risks, and other regulations equally restrictive. . . . . Those regulations exhibit it to be the conception of the law-making bodies of the country without exception that the business of insurance so far affects the public welfare as to invoke and require governmental regulation."

The opinion of this court was that the insurance business is so affected with public interest as to justify regulation of its rates by the legislature. The court did not rule that rate regulation was necessary, holding that to be a matter for the legislature, but only existence of the power of rate regulation. It has been held that a foreign insurance company operating within the jurisdiction of a state is subject to the laws applicable to domestic companies.

There is often a separate department of state, called the Insurance Department, that has control over the execution of the insurance laws. At the head of this department there is generally an insurance commissioner or superintendent of insurance who exercises control and regulation of the insurance business. A statement of the principal functions of the superintendent or commissioner of insurance outlines quite effectively the extent of state supervision. The following is typical of the powers and duties of the state insurance official:

(a) To supervise all insurance operations and to enforce the insurance laws.

(b) To conduct periodical examinations of the financial affairs and operations of all domestic, foreign, and alien companies that are admitted to the state.

(c) To conduct qualifying examinations of agents and solicitors and otherwise determine their suitability to be licensed as representative of insurance companies.

(d) To issue company, agent's and solicitor's licenses and collect the fees therefor.

(e) To act as custodian of the deposits of insurance companies.

(f) To supervise generally the insurance business so as most effectively to safeguard the public as well as the insurance industry.

(g) To compute and certify to the Auditor and Treasurer of State the taxes to be paid by insurance companies.

(h) To rehabilitate or liquidate, under order of the court, impaired or insolvent insurance companies.

See Regulation and supervision; Annual statement; Rebating; Policy conditions; Valuation standards.

Supplementary benefits. This is a rather broad term and has reference to all of the "liberalizing" features that have been added to the life in-

surance policies over the years. Included in these supplementary benefits are such privileges granted to the insured as: (1) grace in the payment of premiums; (2) reinstatement of a lapsed policy; (3) incontestability of contract; (4) loan privileges; (5) waiver of premium benefit; (6) assignment; (7) conversion privilege; and (8) optional modes of settlement.

Supplementary contracts. The expression *supplementary contract* is used in a number of ways in life insurance practice. When an optional mode of settlement goes into effect, the original policy is sometimes exchanged for a supplementary contract that sets forth the conditions of the mode of settlement. It is a requirement of the annual statement that the companies report on the "consideration for supplementary contracts involving life contingencies." The following forms of protection are frequently added to the basic life insurance policy by means of supplementary contracts: (1) waiver of premium; (2) accidental death benefit; (3) disability income benefit; and (4) family income coverage.

Supplementary payor benefit. *See* Payor benefit; Juvenile insurance.

Surplus account. The *surplus account* is the amount that, for the sake of safety and conservative operation, the life insurance company retains, in addition to the reserves that are required by law. *See* Gain and loss exhibit.

Surplus fund. A *surplus fund* is a fund in excess of all liability. In life insurance, it is built up from savings in mortality, savings from excess insurance, savings from loading, and accumulations from other sources. A surplus fund may be divided into several divisions, such as funds held for future contingencies, unassigned funds, and funds to be apportioned as dividends to policyholders.

Laws have been passed in most states limiting the amount of the surplus that may be held in a contingency fund. The purpose of this legislation is to prevent the insurance companies from withholding funds that should be distributed to policyholders. Usually, the limit imposed by law is fixed at ten per cent of the reserve of not less than $100,000,000. Two reasons for the holding of a strong contingency fund are to safeguard investments and to take care of epidemics.

As already indicated, the distribution of the surplus to the policyholder is an important point. Such a distribution may be made annually or at deferred periods. The surplus now must be distributed yearly, for deferred dividends are not allowed by law. One of the most difficult problems is the actual allocation of the share of the surplus to each individual policy. Several obviously impractical plans of distribution have been suggested: (1) divide the surplus in proportion to the premium paid; (2) divide the surplus in proportion to the sum insured; and (3) divide the surplus in proportion to the reserve value on each policy.

The really equitable way to apportion the surplus is to ascertain the real sources that have actually made up the surplus and then return the money according to this idea. This is done under the contribution plan and its modifications.

The contribution plan may be operated on either the three-factor system or the two-factor system. Under the three-factor method, the dividend is apportioned in accordance with the proportionate contribution to the dividend from the three main sources of profit: (1) profits from loading; (2) excess interest; and (3) mortality savings. Other gains or losses, such as investment profits,

gains from surrenders and lapses, and profits from disability provisions, may be woven into the three-factor system or included by an extension of the formula.

When only interest and loading enter into the distribution of dividends, the plan is called the two-factor system. Modern mortality experience, which has been quite favorable, hardly warrants the use of just two factors instead of three. Under the contribution plan the precise amount refunded in the form of a dividend requires adjustment because of variations in: (1) classes of policies; (2) duration that policies have been in force; and (3) age at issue.

Surplus requirements. Some of the states require by statute a paid-in surplus in cash at the time of the organization of an insurance company. New York and Pennsylvania, for example, require an initial surplus of 50 per cent of the capital stock. A substantial surplus is required in order to help maintain the solvency of an insurance company, especially during the first few years after its organization, because of the heavy initial expenses and the stringent unearned premium reserve requirements. *See* Surplus fund.

Surplus to policyholders. *See* Distribution of surplus; Distributive surplus; Dividend payments; Surplus fund.

Surrender charge. When a policyholder desires the cash surrender value of his life insurance policy, the company will pay this sum out of the reserve on the policy. The withdrawing policyholder, however, secures a large fraction of the reserve but not all. The insurance company retains a small fraction, and this retention on the part of the company is often termed the *surrender charge.* Such a charge is made on the fundamental assumption that lapses or surrenders are not made by persons who are poor risks. The good risks are the ones that withdraw, and this surrender charge is necessary to help take care of the selection against the company. Moreover, a surrender charge is required, especially in the early years of the policy, for the reason that, considering the individual policy as standing by itself, generally the initial expense is not fully compensated for until the policy has been carried for a period of years. The surrender charge, therefore, is a partial compensation for the expense involved and is made to enable the insurance company to replace the lost policyholder by securing a new policyholder. Surrender charges may influence the cost of insurance through a reduction in the surrender values of a policy.

Surrender values. *See* Cash surrender value; Extended term insurance; Paid-up insurance rights; Nonforfeiture options.

Surveying agent. An insurance agent is sometimes called a *surveying agent* when he is authorized only to receive and forward applications. Such an agent cannot bind the company. *See* Agent.

Survival assumptions. Tables are available that show the number of survivors at the end of stated years. These tables are helpful in pointing out to individuals the need for retirement income and the value of annuities. This probability of survivorship is shown in the following table:

MORTALITY FACTS FROM THE AMERICAN MEN TABLE

Number of Lives Surviving a Given Period Out of an Original 1000 Lives

Age	10 Years	20 Years	To Age 60	To Age 65	Age	10 Years	20 Years	To Age 60	To Age 65
15	962	920	696	592	55	766	410	900	766
16	961	919	698	594	56	748	379	916	779
17	960	917	700	596	57	728	347	934	794
18	960	916	703	598	58	708	317	954	811
19	959	915	706	600	59	687	286	976	830
20	958	913	708	603	60	664	257		851
21	958	911	711	605	61	640	228		874
22	957	909	714	607	62	615	200		900
23	957	907	717	610	63	590	174		930
24	957	905	720	612	64	563	150		963
25	956	902	723	615	65	535	127		
26	956	898	726	618	66	506	106		
27	955	895	729	620	67	477	88		
28	955	890	733	623	68	447	71		
29	954	885	736	626	69	417	57		
30	953	880	739	629	70	386	44		
31	951	874	742	632	71	356	34		
32	950	866	746	634	72	325	26		
33	948	859	749	637	73	295	19		
34	946	850	753	640	74	266	13		
35	943	840	756	643	75	237	9		
36	940	829	760	646	76	210	6		
37	937	818	763	650	77	184	4		
38	933	805	767	653	78	159	3		
39	928	791	772	656	79	136	2		
40	924	776	776	660	80	115	1		
41	918	760	780	664	81	96			
42	912	742	785	668	82	79			
43	906	723	790	672	83	63			
44	899	703	796	677	84	50			
45	891	682	802	682	85	39			
46	882	660	808	688					
47	873	636	815	694					
48	863	611	823	700					
49	852	585	831	707					
50	840	558	840	715					
51	827	530	850	723					
52	813	501	861	732					
53	799	471	873	742					
54	783	440	886	753					

Survivorship annuity. The *survivorship annuity,* or *reversionary annuity* as it is sometimes called, is a unique contract because it practically represents a contract of life insurance on one person in order to provide a life annuity for another person. The party upon whose death the annuity payments begin is called the *insured* or *nominator,* and the person to whom the annuity is payable thereafter for life is known as the *beneficiary* or *annuitant.* In contrast to other deferred annuities, the income under this contract is deferred until the failure of the life insured.

The issuance of such an annuity depends upon the insured's passing the regular medical examination required for life insurance. The risks for this annuity are carefully selected, for the premiums are paid only as long as the insured survives. The regular life insurance application is often used for this annuity. No medical examination of the annuitant

(beneficiary) is required, but evidence of the date of birth must be presented.

Under the terms of this annuity, the first payment by the insurer is deferred and is not due until the receipt of evidence of the death of the insured. However, suicide of the insured within two years from the contract is an exception and voids the contract. This annuity payable upon the death of the insured is to be continued thereafter for the entire life of the annuitant. Such annuity checks may be sent to the annuitant yearly, half-yearly, quarterly, or monthly, according to the terms of the contract. If the income is payable monthly, for example, the first such monthly check to the annuitant is due upon the death of the insured; and thereafter it is payable upon the same day of each succeeding month during the subsequent lifetime of the named annuitant. The annuitant (beneficiary) may not be changed under this annuity. Usually evidence that the annuitant is living may be required when each payment by the insurance company is made. Under the typical contract the annuity terminates with the last regular income payment preceding the death of the annuitant.

The premiums for the survivorship annuity are usually payable annually during the joint lifetime of the insured and the annuitant; that is, premiums are payable only during the lifetime of the insured while the annuitant is also living. For particular age combinations some companies issue the annuity on the basis of premium payments for a definite number of years, such as 10, 15, or 20 years. One company requires premium payments until the insured reaches age 65, at which time the contract becomes fully paid up.

As the survivorship annuity is issued purely for the benefit of the annuitant in the event of the death of the insured, it automatically terminates if the annuitant dies before the insured, and all premiums paid by the insured become the property of the insurance company. There is an exception to this rule in the case of any disability benefits that may be payable to the insured in connection with a survivorship annuity. Also in the case of the suicide of the insured within two years from the date of the contract, which voids the annuity, the annuitant is entitled to the return of the premiums paid by the insured. If the annuitant dies after having received only a few income payments from the survivorship annuity, no refund is payable to the estate under the contract.

A supplementary disability clause, which requires the payment of an extra premium, may be added to the survivorship annuity issued by some companies. This clause may provide for waiver of premium and/or disability income in case of total and permanent disability of the insured, as defined in the clause, before age 60 and before the death of the annuitant. The contract definitions of disability are not uniform, but some specify that the disability resulting from bodily injury or disease must be such that the insured is prevented from performing any work, following any occupation, or engaging in any business for remuneration or profit.

Although survivorship annuity contracts have no cash or loan values, there is a nonforfeiture provision. Usually after premiums have been paid for three years, if there is a default in any subsequent premium payment the contract becomes automatically paid-up for such part of the original annuity as the res[illegible] (usually 80 per cent after three years, 90

per cent after four years, and 100 per cent after five or more years) will purchase at the ages of the insured and the annuitant at the date of such default. Many of these annuities are nonparticipating; but if the contract is participating, such reduced annuity does not participate in any surplus. Likewise, disability and double indemnity annuity provisions, if any, are not applicable.

Aside from the double indemnity and waiver of premium benefits, significant factors involved in the annual premium charge for the usual survivorship annuity include the ages (exact dates of birth) of the insured and the annuitant and whether the annuity is payable annually, semiannually, quarterly, or monthly. The premium rates charged by some companies depend upon the ages at nearest birthday of both the insured and the annuitant, regardless of sex except for waiver of premium benefit. Rates for various age combinations from 20 to 65 for each $10 of monthly income may be quoted for the survivorship annuity as follows: (1) without waiver of premium or double indemnity; (2) with double indemnity but without waiver of premium; and (3) with waiver of premium and double indemnity.

This annuity is frequently purchased by a son or a daughter who has the responsibility of supporting an aged parent. By this means a son can secure at the lowest possible rate a guaranteed income to continue for the lifetime of the dependent father or mother in the case of his death. One objection sometimes raised against such a contract is the possibility of losing all that is paid if the annuitant dies before the insured, but it is usually entirely forgotten that this is the precise reason why the charge is so reasonable. The object of the survivorship annuity is to provide at low cost a means of obtaining a guaranteed income for a dependent. The rate is low because the premium is intended to provide income to the annuitant, and the insured does not have cash or loan values. The rates are particularly attractive for certain age combinations, especially where the annuitant is considerably older than the insured. In general, a survivorship annuity is valuable where the object is to provide protection for an individual who is more than 30 years of age. *See* Annuities classified; Prospects for annuities.

Survivorship policy. A *survivorship policy* is a policy that becomes payable upon the death of the survivor of several joint lives. *See* Survivorship annuity.

T

Table of mortality. *See* Mortality tables.

Table of values. *See* Nonforfeiture options.

Tabular basis of valuation. *See* Valuation on tabular basis.

Tabular net cost. In life insurance practices, the death rate per 1,000 lives as indicated by the mortality table is termed the *tabular mortality.* In determining the premium to be charged, this tabular mortality may be referred to as the *tabular net cost.* It should be pointed out that the *actual mortality* may be less than the *tabular mortality* (expected mortality), and, hence, the tabular net cost may not be the lowest mortality cost possible or experienced.

Taxation of insurance. *See* Federal taxes.

Temporary annuity. A life annuity ending with a term of years or prior to the death of the annuitant is called a *temporary annuity.*

An annuity purchased by an ad-

vance single premium may be secured with the annuity payable for a *certain term of years if the annuitant is then living* instead of for the entire remaining life of the annuitant. Such an immediate annuity may, or may not, contain provision for the return of any balance of the purchase price in case of the death of the annuitant before the end of the specified term. An annuity may be purchased to provide a payment of a certain sum, such as $100 monthly, for a particular period, such as for six years, if the annuitant is then living. It may guarantee also that in the event of the annuitant's premature death any balance of the purchase price remaining with the insurer is returnable to his executors or administrators. This is a temporary life annuity, for it continues for only a stipulated term of years, and no annuity is payable to the annuitant after the expiration of this period.

A temporary life annuity may be used to secure a definite income for a limited period, such as until a child reaches a certain age or until a friend, former servant, or employee can get established in some occupation. A temporary refund annuity is adaptable to the needs of an individual who desires to make provision for another for a term of years but who also wants to be sure that any balance of the purchase price remaining with the insurer in the case of the early death of the annuitant will be returned to the purchaser. It is also suitable for a person requiring an income for a certain number of years who desires to make provision for a dependent in case of death prior to having received the amount of the purchase price of the annuity.

Temporary insurance. *See* Term insurance.

Temporary reversionary annuity. If the annuity income to the beneficiary is payable after the death of the insured (purchaser) with no payment to be made after the expiration of a certain number of years, it is called a temporary reversionary or survivorship annuity. *See* Survivorship annuity.

Ten payment or twenty payment life policy. Insurance for the entire term of life may be issued by a policy in which the premiums are to be paid for ten or twenty years. *See* Limited payment policy; Paid-up policy.

Term conversions. Many term policies contain provisions for conversion to a more permanent form of insurance. Sometimes the conversion must be made within a specified period of time as, for example, a seven-year term policy may be made convertible within five years. In some cases the conversion is optional but automatic. Conversion may sometimes be made without a medical examination. *See* Convertible term; Conversion value.

Term expectancy. This is level insurance to the end of life expectancy, that is, for at least the usual productive period. The premium is distinctly lower than ordinary life or life expectancy. The premium is only slightly higher than a short term rate except at the highest ages, but is level for the entire period of expectancy. The following rules usually apply to the underwriting of this form of life insurance:

(1) Maximum policy $100,000.

(2) Issued with or without disability provision.

(3) Issued at ages 20 to 50 inclusive.

(4) Not issued substandard.

(5) Has surrender values. The insurance under the paid-up value is payable only in event of death prior to expectancy age.

(6) Conversion privileges: Conversion is permitted to like amount of insurance without evidence of insurability as of

attained age at any time up to five years prior to expectancy age, provided that the insured is not wholly disabled so as to be entitled to permanent total disability benefits in accordance with the contract.

Upon written request in specific cases, a rider will be issued permitting conversion, provided that the insured is not disabled as stated above, up to five years from date of issue, as of original age to any permanent form now issued. The charge for conversion is the sum of the annual difference between the premium for the term expectancy contract and the premium for the new contract at the insurance company's present rates at the original age with compound interest thereon at the rate of a fixed per cent per annum.

If the insured is disabled, conversion is permitted only to ordinary life at the attained age with premium waiver disability provision at the company's rates then in effect. Premiums on the converted contract will be waived during the continuance of such disability.

Conversion as of attained age may be to any permanent form then issued by the company at the rates then in effect at the attained age. The cash value available on the term expectancy contract shall be applied toward the payment of the first premium on the new contract, and the remainder, if any, of such value shall be paid in cash.

In the case of attained age conversions, a contract issued without disability provision may be converted only to a contract without disability provision and a contract issued with disability provision may be converted only to a contract containing provision for premium waiver in event of permanent total disability or no disability provision. In the case of original age conversions, the new contract may contain disability provision only if the term expectancy contract contained it.

Some of the special features of this policy may be stated as follows:

(1) Gives insurance for the period when the death of the insured is liable to be a financial hardship to his dependents, at a rate which represents the cost of coverage for only that period.

(2) Where full insurance for the whole of life is later desired, the conversion privilege permits obtaining this at a reasonable rate even though the policyholder is no longer insurable.

(3) Since the expiry of the coverage is fixed at the end of expectancy, it comes at an earlier age for policies issued at the younger ages and later for those issued at the older ages.

Among the practical uses of this particular form of policy the following should be noted:

(1) For family protection, in view of the fact that full insurance will probably not be needed in old age, when children have grown up and the after lifetime of wife is shortened.

(2) For business insurance, where a financial loss would be incurred only if the death of the person insured occurred within his expectancy, since if he lived beyond that time men would probably have been developed to take over his responsibility.

(3) In general, for any purpose for which short term insurance is ordinarily used, inasmuch as the initial rate is not much greater, the rate need not be increased if the insurance is continued for as long as the expectancy of life, and the net cost is kept low by the cash surrender values if the coverage is terminated at an earlier time.

Terminal reserve. *Terminal reserve* may be defined as that sum which,

with additions from all future premium receipts, plus interest payments, will pay all future maturities under the policy. The insurance laws of Wisconsin define *terminal reserve* as:

> . . . . the reserve at the end of the policy year, and is the sum sufficient, with the net premiums coming due, to provide for the future mortality charges, and mature the policy according to its terms, all computed upon the table of mortality adopted and the rate of interest assumed.

See Reserves.

Terminations. The word *termination* has been defined to mean the cessation of all enforceable legal relations between the policyholder and the company. Life insurance policies may be said to terminate in any of the following ways: (1) death; (2) maturity; (3) disability; (4) expiry; (5) decrease; (6) surrender; and (7) lapse. It has been pointed out that an "increase" or "decrease" resulting in a change of policy cannot constitute a mode of termination of a policy. When dealing with amounts of insurance, however, a decrease may be considered a form of termination for the reason that a portion of the insurance is canceled.

Lapses may be shown in several ways, such as: (1) by face amount of policy; (2) by number of policy; (3) by cost to policyholder; and (4) by gains or losses to policyholders. The problem of lapses is one in much dispute. Figures were presented in the Temporary National Economic Committee investigation showing the following on lapses and other terminations as percentages of total terminations:

For the Years 1928–1937
Lapse 61.62%
Surrender 26.79%
Decrease 4.27%
Expiry 9.67%
Death 6.69%
Maturity .99%

A statement filed by the leading insurance companies had the following to say about terminations:

> The chart on page 49, analyzing insurance terminations by mode, still does not measure the true financial significance of the various modes of termination, because the statistics deal with face amounts of insurance instead of with premiums paid by policyholders. The figures, used by a witness of the Commission, attribute equal importance to a lapse after one month's premium has been paid, to a surrender for cash after payment of premiums for say 25 years, and to a death claim. The really important and significant question is: How much of the total premium money paid by policyholders is paid on policies that lapse, how much on policies that surrender, and how much on policies maturing by death?

How Insurance Policies Terminate	Distribution based on Amounts of Insurance	Premiums Paid
Death	34%	57%
Surrender	46	41½
Lapse	20	1½
Total	100%	100%

> Assuming that there is a loss to the policyholder in the case of lapses (third group), the actual loss is not 20% of all insurance issued, as testified by a witness of the Commission, but must be less than 1.5% of all premiums paid, as part of these premiums is required for the cost of protection while the policies were in force.

Term insurance. A policy of life insurance that covers a policyholder for a fixed number of years only is a *term insurance* policy. Such a policy may be for one or more years, but is usually for 5, 10, 15, or 20 years, though seldom for a period of 20 years. Under such a contract, commonly known as pure protection, the company pays the face value of the policy to the

beneficiary; but if the insured survives the term of the policy, the contract expires and is canceled. For purposes of illustration, assume that an insurance company insures a policyholder, at age 35, for $1,000 on a five-year term basis. If the policyholder dies during the second year of his policy, he will have paid the insurance company two annual premiums and his beneficiary will receive $1,000. On the other hand, if the policyholder survives the five-year period, five annual premiums will have been paid to the insurance company, the policy will be terminated, and nothing will be payable to either the policyholder or the beneficiary under such a contract.

The provisions of a term policy are similar to those of the ordinary or whole life policy; but, owing to the usual short duration of term policies, a very small policy value exists. In fact, most term policies do not provide cash, loan, extended insurance, or paid-up values. Premiums are usually payable quarterly, semiannually, or annually.

It is important from the standpoint of the policyholder that the term policy contain the privileges of conversion and renewal. By conversion is meant the privilege of changing the term policy or substituting for it (within five years) a whole life or endowment without medical examination. Renewal is the right to continue the insurance without a medical examination. A few companies issue a renewable term policy to age 60 or 65.

Some of the advantages of term insurance may be summarized as follows:

1. The cost of term insurance is very low compared with other forms of life insurance. A maximum of protection is given for a minimum of expenditure.

2. It is suitable as protection against any hazard that is confined to a short period, such as covering a mortgage on a home.

3. Business insurance (coverage on the lives of the officers responsible for the success of the business) may be written on the term plan.

Some of the disadvantages of term insurance may be stated as follows:

1. There is danger of having the policy expire just when the need of the protection is the greatest.

2. Term insurance is a temporary measure and only postpones the securing of permanent protection.

Term insurance in case of loan. Some policies contain a provision that enables the policyholder to take out term insurance to cover a policy loan. The idea is to carry term insurance which is equal to the amount of the loan so that what is borrowed on the policy will not diminish the face of the policy in event of death prior to repayment of the loan. Term insurance is written on the following conditions:

(a) Evidence of insurability satisfactory to the Company must be received.

(b) Such term insurance shall be for the period to the next anniversary of this Policy. The premium therefor shall be payable in advance. . . .

(c) If the indebtedness on account of a loan shall be reduced or repaid or shall be satisfied in accordance with the terms of the Loan Agreement, the term insurance shall thereupon automatically be reduced or canceled accordingly and any unearned premium paid therefor will be refunded.

(d) Such term insurance takes effect upon delivery to the Insured of the Company's policy therefor and when payable shall be applied to the reduction of the indebtedness.

(e) In event of self-destruction, whether the Insured be sane or insane, the term insurance shall be null and void and the

premium paid therefor shall be applied to the reduction of the indebtedness.

Such term insurance may be obtained again on the same conditions from year to year. However, such term insurance may not be obtained to extend beyond the anniversary of this Policy on which the Insured's age at nearest birthday is 65.

Term of the annuity. Briefly, the term of the annuity refers to the time between the beginning of the first payment interval and the end of the last payment interval, and this duration is dependent upon the provisions of the instrument by which the annuity is created. The term of the annuity may be for an unlimited period, a definite period of years, an indefinite number of years dependent upon some contingency, a definite number of years as to minimum duration but indefinite as to maximum duration dependent upon a certain contingency, or a definite number of years as to possible maximum duration subject to a certain contingency.

A general classification of annuities on the basis of the term or duration of the annuity includes perpetual annuities (perpetuities), annuities-certain, and contingent or life annuities which may be subject to specific limitations. Our primary concern is with annuities contingent to some degree upon the duration of life, which contracts may assume the most varied forms. *See* Annuities classified; Life annuities.

Terms of policy. Many classifications are available which describe the terms, conditions, and provisions of life insurance policies. One way to group the terms of a policy is to arrange the contents of the policy under these headings: (1) terms that deal with payment of premiums; (2) provisions relating to payment of policy proceeds; and (3) miscellaneous or general conditions. An outline grouping of the terms of the policy with the major specific provisions which fall under the threefold classification is shown on page 286.

Third party application. When insurance on an adult plan is being purchased and is to be controlled by a party other than the life to be insured, a special application form is generally used. The regular annuity application may be used for third party ownership by having the purchaser sign as applicant. *See* Sole owner beneficiary.

Three-factor system. *See* Surplus fund.

Tontine policy. *Tontine policy* is derived from the name of an Italian Neapolitan named Lorenzo Tonti. Under the tontine form of life insurance, the surplus is distributed at the end of a stipulated period, but the lapsing members forfeit their rights and receive nothing. Under such policies, the surplus is not returned each year to the policyholder as a dividend but is placed in the tontine fund, and the amount is credited to the class to which the policy belongs. In other words, the reserve values of lapsed policies become profits and are put into this fund. Death before the time fixed on the policy (tontine period) deprives the beneficiary of any benefits. Under tontine policies the word *class* refers to policies written in the same year upon persons of the same age and on the same plan. The policyholder does not have the right, under a tontine policy, to the fund until the end of the tontine period, that is, the day after the end of the period. The survivors in the particular class to which the policyholder belongs receive a share of the benefits at the end of the tontine period. A tontine policy, though somewhat like a participating policy, is usually considered as objectionable. These contracts were

- Analysis of Policy Provisions
  - Principal insuring clauses
    - Cash payments
    - Income payments
  - Supplementary insuring clauses (Liberalizing features)
    - Grace period
    - Incontestability
    - Nonforfeiture provisions
      - Cash value
      - Paid-up insurance
      - Extended insurance
    - Loan provisions
      - Cash loans
      - Automatic premium loans
    - Waiver of premiums
    - Exchange or conversion option
    - Paid-up or endowment options
    - Reinstatement
    - Residence and travel
    - Participation in surplus
      - Paid in cash
      - Reduction of premiums
      - Purchase participating nonforfeiture additions
      - Left with company to accumulate
  - General Provisions (Special Operating Conditions)
    - Assignments
    - Modification of policy
    - Effective date of policy
    - Entirety of contract
    - Consideration
    - Attestation clause
    - Payment of premium
      - How payable
      - When payable
      - Where payable
    - Change of beneficiary and succession
    - Suicide
    - Misstatement of age
    - Basis of reserve
    - Table of loan, paid-up, and extended values
    - Repayment of loans
    - Military or naval service
    - Optional modes of settlement
      - Interest income
      - Instalments for fixed amount
      - Instalments for fixed period
      - Life income

very popular at one time, but are now prohibited by law in most states. *See* State tontines.

Total abstainer. An individual who does not use alcoholic liquors of any kind is known as a *total abstainer.* In insurance practices, especially in life and accident insurance, total abstainers are considered especially good risks, other things being equal. The life insurance application usually contains a question relating to the use of alcoholic beverages. In England, a credit or a discount is allowed individuals on their premium payments for accident or health insurance if they can show that they are total abstainers.

Total and permanent disability benefits. Two types of benefits for disability are offered by life insurance companies. Most companies will give a waiver of premium benefit in event the policyholder is totally and permanently disabled. The waiver of premium benefit will not be

granted to certain risks of which the following are typical:

1. Applicants under age 15, nearest birthday.
2. Married women.
3. Applicants having but one arm, one leg, or one eye.
4. Applicants whose physical condition, family history, or occupation is such as to make the risk extra hazardous from the standpoint of disability insurance.
5. Applicants not engaged in a gainful occupation.
6. Applicants having a goiter of any kind whatever, with or without operation.

The typical waiver of premium provision defines disability; excludes certain types of disability; admits disability for certain losses; requires proof of claim and proof of continuance; limits the age to which disability applies; and provides a waiting period.

Some companies will give a specified monthly income for total and permanent disability. Similar limitations are placed on the income benefit as for the waiver of premium benefit. An extra premium is charged for these disability benefits.

Travel clause. Most life insurance policies are free from restrictions as to travel. Some policies may include restrictions on airplane travel. The double indemnity benefit usually restricts participation in aeronautics except as a regular passenger on an established air route.

Trend of mortality. Generally the trend of mortality has been downward. The new mortality tables now in use show this to be the case. Deaths due to heart and other circulatory diseases, cancer and nephritis are relatively high. Deaths due to violence, especially on account of the operations of war, have increased.

Trial applications. When an agent is in doubt as to the insurability of an applicant, he may often submit a trial application. Medical examination in such cases is not made until a report is sent from the home office. Many companies require a trial application in the following circumstances:

(a) If within five years insurance has been declined by this or any other company.
(b) If the weight falls outside the limits for standard insurance according to the Build Table.
(c) If the occupation is hazardous or injurious to health and is not included in the list given in this rate book.
(d) If the personal or family history is questionable.
(e) If there is a tubercular family history.
(f) If such person has lived in the same house or has been closely associated with a tubercular person.
(g) If such person belongs to a race other than Caucasian.
(h) If the age nearest birthday is over 65 years in case of a male or 60 years in case of a female.

Trust agreement. It is a practice for individuals to arrange, through a will, for a trust agreement to handle one's estate. Under a strictly legal trust, the legal title of the fund or property is in the hands of the trustee and the income therefrom is paid to the beneficiary. The trustee is charged with the conservation and investment of the funds for the beneficiary. Whatever income is received by the trustee is paid to the beneficiary. One of the merits claimed for the life insurance income contractual settlement, in contrast to the strictly legal trust arrangement, is the contractual guaranty of the life insurance settlement arrangement. If the trustee fails satisfactorily to invest the funds of the estate, the loss falls upon the beneficiary. Under a life income settlement agreement, the beneficiary

is assured of a definite income and this guaranty is equivalent in merit to the amount promised in the face value of the policy that created the estate.

Twenty payment life policy. *See* Ten payment or twenty payment life policy.

Twisting. Although every state will permit an insurance agent to make a complete comparison without misrepresentation between companies and policy contracts, *twisting* is not allowed. The *twister* is usually involved in the type of misrepresentation that seeks to get a policyholder to drop a policy in one company in order to take one out in another company. Most states impose a penalty on an insurance agent guilty of twisting. In Pennsylvania, for example, the penalty is the revocation of an agent's license for one year and a fine not exceeding $500 for each violation and/or a sentence of not more than six months in jail. Most states have enacted laws on twisting. The insurance laws of Idaho, for example, state:

> No insurance company, association or society, officer, director, agent, broker, or solicitor thereof, or any person, firm, association or corporation, shall make any misrepresentation or incomplete comparison of policies, oral, written or otherwise, to any person insured in any company, for the purpose of inducing or tending to induce such person to take out a policy of insurance, or for the purpose of inducing or tending to induce a policyholder in any company to lapse, forfeit or surrender his insurance therein, and take out a policy of insurance in another like company.

Some company applications contain this question: "In connection with this application were you persuaded to discontinue or replace other insurance in this or any other company?"

Some companies issue instructions to their agents on twisting of which the following is a good sample:

> Since you may be asked by your prospective clients to examine their contracts with other companies, it is important that you know the proper course to follow on such occasions. Good judgment and honesty will compel you to comment in favor of the contracts already in effect and the companies which issue them. Your client will be more likely to purchase additional insurance if he is convinced of the value of that which he already owns. Honesty compels this course because the acquisition cost of a contract is a considerable amount and is paid indirectly by the insured. If he discontinues one contract and purchases another, he pays the acquisition cost twice.
>
> Under the legal reserve life insurance system the coverage and premium rates of all companies are virtually equal in value. Therefore, if a man's contract is no longer the best for him, the company which issued it will gladly change it to the form desired without unnecessary additional expense to him.
>
> Occasionally, an overzealous salesman may advise or permit the insured to discontinue an old contract to buy a new one from him, particularly if the contract is in a younger or smaller company than the one he represents. He may attempt to justify his action and the unwarranted expense to the insured, on the ground that the change to a larger and older company justifies the added cost.

Two-factor system. *See* Surplus fund.

Two-life annuity. *See* Joint life annuity.

Two-weeks clause. This is a provision in the industrial policy which gives the insured the right to surrender the policy within two weeks and get his premiums back. The right to surrender exists for two weeks, which is usually about two weeks after the date of issue of the policy. The policy provision reads:

> If this Policy is not satisfactory it may be surrendered for cancellation, within two weeks from its date of issue, at the District Office through which it was delivered, and the premium or premiums paid will be returned.

Types of policies. *See* Forms of policies.

U

Ultimate amount. *See* Juvenile insurance.

Ultimate mortality table. A mortality table, made up of lives upon which the experience of the first years (usually five) have been eliminated, is called an *ultimate mortality table.* The American Experience Table is an ultimate table. *See* Mortality table; Select mortality table.

Ultimate plan. *See* Select and ultimate method.

Unadmitted assets. *See* Admitted assets.

Unassigned funds. Unassigned funds in the annual statement are surplus funds. Such funds have not been assigned for policyholder distribution or for any special contingency reserves.

Unauthorized acts. Most companies instruct their agents on what are termed *unauthorized acts.* The following is a sample of such instructions:

> Agents are not authorized to make, modify or discharge contracts; to extend the time for paying any premium; to waive forfeiture; to bind the Company by any statement, promise or representation; to receive any moneys due or to become due to the Company except upon applications obtained by or through them, and then only in exchange for the receipt attached to the application corresponding in date and number with the application, or on policies and renewal receipts that may be sent to them for collection; to employ counsel to represent the Company. All matters involving legal questions or State Insurance Departments must be promptly referred to the Company and instructions awaited.

Unauthorized company. An unauthorized company is one that has not complied with the insurance laws and is illegally operating in a state. State laws make it unlawful to be a representative of an unauthorized company. *See* Non-admitted companies.

Unclaimed matured endowments. There are a few instances where an endowment has matured and the policyholder fails to claim the proceeds of the policy. Companies always try to locate such persons, but sometimes because of change of address it is not easy to find the insured. The right of the insured to the endowment always exists.

Uncollected and deferred premiums. In the annual statement, under nonledger assets, appears the item of "net uncollected and deferred premiums." The net deferred premiums arise because of the practice of permitting policyholders to pay premiums in installments, such as semi-yearly, quarterly, or monthly, instead of yearly as is assumed on the reserve calculation. Because of the grace period, as well as bookkeeping work, some premiums payable during the last few months of the calendar year may not be reported as paid. In reality, however, such premiums are in the process of payment and the policies are still in force.

Under average risks. *See* Substandard insurance.

Underwriting. In the early development of the insurance idea, when the business was not operated by companies, the *underwriter* was the individual who signed his name under the contract opposite the amount of insurance protection which he guaranteed.

Underwriting involves all the elements that go into the acceptance, modification, and rejection of risks. Underwriting looks into all the hazards, financial, physical, and moral. Underwriting begins with the agent in the field and extends to the techniques carried out by the home office. Underwriting includes the application, the agent's report, the report of the medical examiner, and the inspection report. The home office that classifies and finally accepts the risk is an underwriter. The agent who first solicits the risk and presents the application is an underwriter. The term *underwriting* may be used in both a broad and a limited way in life insurance.

Undesirable risk. Certain risks are considered uninsurable or at least *undesirable.* Most companies publish lists of undesirable or prohibited risks. Such lists of undesirable risks are for the guidance of agents and solicitors in securing business. As an example, usually men engaged in the following occupations will not be insured under ordinary health or disability policies: actors, authors, barbers, lecturers, musicians, painters, printers, professional dancers, public speakers, vocalists, vocal teachers, and waiters.

Undivided surplus. *See* Surplus fund.

Unfunded insurance trust. In life insurance, an *unfunded insurance trust* is a means whereby the policyholder can obtain a trusteeship of his insurance proceeds after his death. Under this plan, the beneficiary of the insurance policy is a trust company or a trustee. In contrast with the funded trust, the policyholder pays the premiums to the company, but the policies may be deposited with the trust company for safekeeping.

When the policyholder dies, the trust company collects the proceeds due under the life insurance policy. The trustee then invests these proceeds in accordance with the directions contained in the trust agreement. The trustee also distributes the income and principal in accordance with the terms of the agreement. In writing on this subject of life insurance trusts, Mr. Edward M. McMahon, of the Equitable Trust Company of New York, said of the unfunded trust:

> By this plan the estate owner provides a secure method for conserving all the proceeds of his insurance. He may be assured that such moneys will be invested with judgment and an eye to the best return consistent with safety. He eliminates so far as possible waste in the administration of his insurance estate, loss in investment and distributes the income and principal in accordance with the terms of the agreement.

See Funded insurance trust; Investment insurance trust; Optional modes of settlement.

United States annuities. The actual annuity experience from 1902 to 1927 of 25 life insurance companies in the United States and six Canadian companies was used in an investigation by a committee of actuaries to produce what is known as the *combined annuity mortality table.* The data included for the United States a total of 21,439 annuities on 14,235 lives and for Canada 804 annuities on 633 lives. The proper length of the select period was investigated, and after taking selection into consideration for ten years the committee of actuaries found such annuity values varied only slightly from those derived from the experience of the sixth and subsequent years. While the study showed that the American Annuitants' Table for female lives reflected fairly the experience since 1918 and the corresponding table for males,

with one year deducted from the age, also fairly represented the experience on male lives, it was considered desirable to present a table that might more accurately reflect the experience of the nine years from 1918 to 1927. *See* Combined Annuity Mortality Table.

United States Government Insurance. This is the insurance provided in World War I, when in 1917 the government established the Bureau of War Risk Insurance. The insurance was issued on the yearly renewable term plan with the provision for conversion to a permanent plan within five years after the end of the war. Veterans of World War I and persons in service at the present time may apply for United States Government Life Insurance. Veterans of World War II may secure National Service Life Insurance. The maximum insurance is $10,000.

United States Life Tables. These are tables compiled by the Bureau of the Census which show the mortality rates among the general population for certain sections of the United States. An examination of these tables will show the following: (1) separate rates of mortality for men and women, in which the mortality rate for the women is lower than for the men; (2) separate rates for white and for colored persons, in which the rate for colored persons is higher than for whites; (3) separate rates for native-born and foreign born, in which the rate is lower for the foreign born at the younger ages; and (4) separate rates for rural and urban peoples, in which the city rate is higher than the rural. General population tables, such as the United States Life Tables, are not suitable for life insurance purposes.

Universal death plans. This is a scheme published in the Temporary National Economic Committee reports which provides five different plans for contributors to an insurance system that would provide a $250 death benefit. The five different plans and the yearly premium cost without any allowance for expense for each are as follows:

Plan A.—is a scheme whereby everybody in the country—man, woman, and child—is a contributor for the benefit payable for each death of a man, woman, or child. In other words, it spreads the contribution base in its widest concept to everyone. Cost is $3.03.

Plan B.—restricts somewhat the contribution base so that flat annual contributions are called for only by persons under the age of 65, but every person—man, woman, or child—under the age of 65 is considered to contribute. Cost is $3.91.

Plan C.—still further contracts the contribution base so that those individuals who are dependents of persons over age 65 are eliminated from the necessity of contributions. Cost is $3.26.

Plan D.—materially restricts the contribution base by confining it to gainful workers, with the amount varying directly with the number of dependents; that is, it is considered that a gainful worker with four dependents would pay five times as much as a single gainful worker. Cost is $7.27.

Plan E.—goes a slight step further and excludes gainful workers over 65 —of whom there are not so many— from contributions. Cost is $7.55.

Unlevel insurance. *See* Level premium.

Uses of life insurance. The uses of life insurance grow out of the needs for life insurance. The following chart gives a simplified statement of the needs for life insurance:

Needs for Life Insurance	Needs while living	Necessary	Savings plan
			Emergency funds
			Retirement income
		Possible	Educational funds
			Business uses
			Credit uses
			Bequest purposes
	Needs after death	Immediate	Clean-up fund
			Readjustment fund
			Mortgage cancellation
		Secondary	Income for wife
			Education for children
			Income for daughter
			Son's business fund
			Bequests
			Tax purposes

Individuals are subject to numerous risks or hazards in their personal and business life. In general, it may be said that the specific purpose of insurance of any kind is to furnish protection against the financial loss attending a particular risk. Life insurance furnishes protection against loss of income due to premature death; fire insurance safeguards the property owner against direct loss or damage due to fire; marine insurance covers against the perils of the sea, and so forth. Each specific form of insurance has a special task to perform. But, in addition to serving as a "risk-bearer," insurance, no matter of what particular kind, performs many other functions. The uses of insurance are many and varied.

The whole matter of the scope and uses of insurance, in general, has been very ably summarized by Riegel and Loman in their book, *Insurance Principles and Practices.*[1] The uses of insurance are subject to the following remarks by these writers:

1. The various services rendered by insurance are usually very inadequately appreciated.
2. There is a striking similarity in the benefits rendered by all forms of insurance.
3. In the field of the individual's family and business relations
   - a. Insurance increases the security of business enterprises;
   - b. Insurance tends to improve the efficiency of business;
   - c. Insurance equitably distributes the cost of losses;
   - d. Insurance is important in the modern credit system;
   - e. Insurance enables the capitalization of assets, human and inanimate;
   - f. Insurance is intimately connected with saving and, in fact, makes the latter practicable;
   - g. Insurance provides a safe investment for surplus funds;
   - h. Insurance encourages and promotes thrift; and
   - i. Insurance furnishes a method of providing for old age.
4. Insurance is beneficial also from the social standpoint by:
   - a. Encouraging provision for the future;
   - b. Partially relieving the community of the care of dependents;
   - c. Enabling families to maintain their customary standard of living;
   - d. Equitably distributing the cost of losses;
   - e. Encouraging the diminution and prevention of losses;

[1] Published by Prentice-Hall, Inc., 70 Fifth Ave., New York.

f. Accumulating capital for employment in industry; and
g. Encouraging competition by relieving small concerns of risk.

5. Insurance protection is now available for a great number of ordinary risks.

Usury. Usury is the practice of lending money and demanding an exorbitant or unlawful rate of interest. The amount of interest charged on a life insurance policy loan is fixed by law in most states usually at six per cent per annum, payable annually on the due date of the annual premium.

V

Valuation of assets. One of the problems in connection with the annual statement as well as with the true financial condition of a life insurance company is the valuation of the assets. Several kinds of valuations may be placed on the assets, depending on the class of asset. Real estate may be valued at cost, market, or on some appraisal basis. Consideration may be given to some write up or write down on purchase price. Policy loans generally are valued on the basis of the actual amount advanced on the loan. Mortgage loans may be valued at book value or at some write down value if the 100 per cent safety of the loan is in question. It is common practice to set up some asset fluctuation contingency reserves for both real estate and mortgage loans. Capitalization of interest is sometimes taken on mortgage loans, especially where the security of the loan is adequate.

Special problems arise in connection with the valuation of stocks and bonds. Life insurance companies do not have any sizable investments in stocks. Listed stocks, of course, have an exchange value that fluctuates periodically. Some average value may be taken for stocks. The purchase price may be used for either stocks or bonds with proper adjustments for changes in the market price and the soundness of the issue. If the security is valued at the market price, the term *non-amortizable* security is usually given to this asset.

On the other hand, an *amortizable* bond is one valued at an adjusted price that is separate from the market price. Rules and regulations have been established by the insurance commissioners for the valuation of both non-amortizable and amortizable securities. Certain arbitrary values, known as *commissioners* or *convention values* have been established for annual statement and reserve valuation purposes. *See* Convention values.

Valuation on accumulation basis. Provision is made in some state laws for fraternal societies to change the basis of the valuation of their certificates. The section in the Idaho statute explains this procedure as follows:

> In lieu of the requirements of sections 5169, 5171, 5172, 5173, 5174, 5175, 5176, 5177, any society accepting in its laws the provisions of this section may value its certificates on a basis, herein designated "accumulation basis," by crediting each member with the net amount contributed for each year and with interest at approximately the net rate earned and by charging him with his share of the losses for each year, herein designated "cost of insurance," and carrying the balance if any, to his credit. The charge for the cost of insurance may be according to the actual experience of the society, applied to a table of mortality recognized by the laws of this state, and shall take into consideration the amount at risk during each year, which shall be the amount payable at death less the credit to the member.
>
> Except as specifically provided in its articles of law or contracts, no charge

shall be carried forward from the first valuation hereunder against any member for any past share of losses exceeding the contribution and credit.

If, after the first valuation, any member's share of losses for any year exceeds his credit, including the contribution for the year, the contribution shall be increased to cover the share of the losses. Any such excess share of losses chargeable to any member may be paid out of a fund or contributions especially created or required for such purposes.

Valuation on tabular basis. Provision is made in some of the state laws for a valuation of the certificates of fraternals on the so-called *tabular basis.* The provision in the insurance laws of Idaho is typical of this idea:

> Any member may transfer to any plan adopted by the society with net rates on which tabular reserves are maintained, and on such transfer shall be entitled to make such application of his credit as provided in the laws of the society.
>
> Certificates, issued, rerated, or readjusted on a basis providing for adequate rates with adequate reserves to mature such certificates upon assumptions for mortality and interest recognized by the laws of this state, shall be valued on such basis, therein designated the "tabular basis": Provided, that if, on the first valuation under this section, a deficiency in reserve shall be shown for any such certificate, the same shall be valued on the accumulation basis.

Valuation standards. The necessity for the holding of substantial reserves by life insurance companies arises out of the level premium system. The acceptance of a level annual premium on a policy under which the risk generally increases continuously and which is not cancelable by the company requires the retention of the excesses of the net premiums received over the cost of insurance during the early years as a reserve against the higher cost at a later time when the level premium by itself is insufficient to meet the current risk. It is this characteristic which distinguishes life insurance from most forms of property insurance where the absence of the factor of increasing risk reduces valuation to the simple computation of a pro rata unearned premium.

The reserve on any life insurance policy may be broadly defined as the difference between the present value of the sum insured less the present value of future premiums. This relation assumes importance when the suitability of any valuation table is under consideration (inasmuch as the reserve is the difference between two quantities that vary in different ways, when a basic table is changed) and explains in a general way why the mortality table that shows the highest rates of mortality does not always produce the largest reserves.

Since the reserves are accumulated from the excesses of premiums paid over current costs, a question may arise as to the necessity of ascertaining such reserves by statutory requirement. If the developing mortality, interest, and expense experience of a company were identical with the corresponding assumptions involved in the calculations of its premiums, the funds remaining with the company at any time (excluding investment gains and losses) would constitute the reserve required to work out existing contracts. The operating experience of life companies, however, is never in exact accord with the theoretical standards established when premiums are calculated, and so the funds in hand at any time may be more or less than contemplated in the premium calculations. It is therefore necessary to compute reserves according to some independent standard related to future requirements rather than to past experience. Such standard may or may not be the same as

that used in the computation of premiums.

According to the insurance laws of our states, valuations of policy reserve liabilities must be made annually on the basis of certain minimum standards of mortality and interest. The prescribing of certain valuation standards by law tends to promote both conservatism and uniformity between companies—both factors being very important from the standpoint of effective supervision, and the interests of the policyholder.

In nearly all the states the laws specify, for valuation of policy liabilities, mortality tables based on insurance company mortality experience of many years ago. In Canada the statutes specify certain mortality tables for valuation purposes, but permit the use of other tables satisfactory to the company and to the insurance supervising authorities.

The American Experience Table has been acceptable for valuation of policy reserve liabilities in connection with ordinary insurance in every state of the union. A similar statement may be made with respect to the Standard Industrial Table in connection with industrial insurance. The American Men Ultimate Table may be used for ordinary insurance in a limited number of states, but is not available for use in a sufficient number of states to make its widespread use practical.

The American Experience Table of mortality, however, is the only mortality basis for the valuation of ordinary policies which has been acceptable in all the states. The rate of interest to be used with this table in defining the various statutory bases varies from three and one-half to six per cent. Interest at three and one-half per cent is specified by 25 states, four per cent by 15 states, four and one-half per cent by three states, and six per cent by one state. In a number of cases the Actuaries' Table of mortality is an alternative standard, or may be used in the valuation of policies issued prior to about 1900.

The American Men Ultimate Table with three and one-half per cent interest has been adopted as a permissive valuation basis, as an alternative to the American Experience Table in seven states. It is generally used as the valuation basis for group insurance.

As a result of these conditions, as well as the demand for a more modern mortality table, a special committee (Guertin Committee) gave much thought and consideration to the following subjects: (1) the need for a new mortality table and related subjects; (2) the relationship of nonforfeiture values and reserve valuation standards. Both topics, of course, are closely interrelated in many ways.

The final outcome of these studies and investigations was the development of new mortality tables, especially the Commissioners' 1941 Standard Ordinary Table and the 1941 Standard Industrial Mortality Table. In addition, recommendations were made for uniform laws in all the states relating to a Standard Valuation Law and a Standard Nonforfeiture Law to replace the variations existing in the states. The new minimum reserve system is to be known as the Commissioners Reserve Valuation Method and the new basis for minimum nonforfeiture values as the adjusted premium method. The enactment of these standard laws will require the use of the new mortality tables. For details of the new mortality tables and nonforfeiture values see these two reports: (1) The Need for a New Mortality Table and Related Topics; and (2) Nonfor-

feiture Benefits and Related Matters.

Value of a life. Insurance is doubly interested in this subject. In the first place, the American Experience Table is freely admitted in evidence in our courts for determining the monetary *value of life* or the money loss resulting from a disability. In the second place, insurance companies pay for loss of life as well as money compensation for disability. It should be noted that considerable difference exists in the money value of a human life, depending on the particular mortality table used. Such a difference would be illustrated as between different races at the same age because of differences in mortality. In actual practice and in court procedure, the money value of a human life is determined by the combined use of life tables and the theory of annuities.

Now the value of a life for life insurance purposes has been expressed in terms of the capitalization of life value idea. Such a method tends to express the life value in sums beyond the premium-paying capacity of the average individual, but the life value idea shows also that the average protection carried is much less than the probable value of the individual to family and dependents. The following is a typical example of a table showing the financial value of the individual:

THE FINANCIAL VALUE OF THE INDIVIDUAL

Present Value of $1,000 Per Annum for the Expectation of Life

American Men Table of Mortality. Interest at 4%

Age	Expectation of Life	Present Value	Age	Expectation of Life	Present Value
15	50	21,496	40	29	17,076
16	49	21,370	41	29	16,823
17	48	21,254	42	28	16,563
18	48	21,134	43	27	16,260
19	47	21,011	44	26	15,983
20	46	20,868	45	25	15,694
21	45	20,737	46	24	15,397
22	44	20,600	47	24	15,091
23	44	20,460	48	23	14,776
24	43	20,315	49	22	14,492
25	42	20,147	50	21	14,156
26	41	19,993	51	21	13,810
27	40	19,833	52	20	13,499
28	39	19,668	53	19	13,180
29	39	19,476	54	18	12,802
30	38	19,300	55	18	12,462
31	37	19,119	56	17	12,114
32	36	18,908	57	16	11,806
33	35	18,713	58	16	11,439
34	34	18,513	59	15	11,063
35	34	18,279	60	14	10,730
36	33	18,065	61	14	10,390
37	32	17,817	62	13	10,043
38	31	17,589	63	13	9,685
39	30	17,351	64	12	9,323

Values on surrender. *See* Nonforfeiture options.

Variations in dividends. Interest, mortality, and loading may produce variations in dividend payments from year to year. The amount of the dividend will depend also on the age at issue, the duration of the policy, and the type of policy. Deferred dividends may vary from annual dividends because of the tontine, if any, element in the deferred dividend. *See* Surplus fund.

Vested right or interest. In general, a *vested interest* is a right or estate, the possession of which is so consummated and established in law that it is maintained and cannot be taken without an equivalent compensation. Persons named as beneficiaries under a life insurance policy, where the policyholder does not reserve the right to change the beneficiary, have a *vested interest* in the proceeds of the policy. It has been held that a policy cannot be assigned when the assignment disturbs the vested rights of the beneficiaries. It is an interest-

ing question as to how a vested interest of a beneficiary is really established, when such beneficiary is totally unaware or has no knowledge of the existence of the contract of insurance.

Violation of law. Life and accident policies sometimes specify that the insurer is not liable if the death of the insured arises in consequence of the violation of a law. An exception of this nature is found in the disability provisions written in connection with life insurance. It does not matter whether the person killing the insured (while violating a law, or in consequence of such violation) committed an offense. This exception has been held destroyed by the incontestable clause after the specified period (146 Ill. App. 611).

A United States Supreme Court case (*Travelers' Ins. Co. v. Seaver,* 19 Wall. 531, 22 L. Ed. 155) said that this exception was directed against the general species of danger attending the violation of law. The violation of a civil or criminal law was held to void the policy, if the natural result of the violation was to increase the risk (97 Ind. 478).

A Missouri court held that the exception as to the violation of a law applied only to instances where the violation amounted to a felony (*Harper's Adm'r v. Phoenix Ins. Co.,* 19 Mo. 506). In *Wolff v. Connecticut Mut. Life Ins. Co.,* 5 Mo. App. 236, however, it was held that, while the exception was not confined to felonies but covered misdemeanors as well, it was not considered as including every misdemeanor of breach of the peace.

Under the policy provision specifying an exclusion while the insured was engaged in the "known violation of any law," it has been asserted that the insured must have been aware that the act amounted to a violation of the law.

Another problem arises in determining just what amounts to a violation of the law within the contemplation of the policy exception. Death caused by and resulting from a violation of the law regulating speed of motor vehicles was held to be within the exception. Generally, the violation of a law while insane does not come within this exception. This exclusion may specify violation of law whether sane or insane, in which case a violation of the law while insane would usually be excluded. In order to amount to a violation of a law, there must be some overt act. For example, mere intention is not sufficient, such as the starting out to hunt in a closed season, or getting ready to leave a train in motion.

In some instances, the insurance companies have maintained that death from suicide is not covered under this exception. Generally, the courts have not construed this exception in the policy to include suicide. In New York it has been held that an attempt to commit suicide is a criminal offense, but successful suicide is not so considered.

Generally, death must occur while the insured is engaged in the violation of law, and as the direct result thereof. A difficult problem also arises in cases of death occurring while the insured is endeavoring to escape from arrest after the crime. Under policies issued with an exclusion of death occurring while the insured was in the custody of the law, the insurer has been held not liable for death occurring while the insured was in a police hospital.

Voidance. *See* Incontestable clause; Nonforfeiture options.

Voluntary assignment. *See* Assignment of policy.

W

Wagering assignment. This type of assignment is one of doubtful insurable interest. The assignee takes over the policy with the expectation of making a gain on the transaction. If something more than true indemnity for a loan or debt is made on an assignment to a creditor, an element of wager enters into the arrangement. *See* Assignment of policy.

Waiting period. *See* Total and permanent disability benefits.

Waiver of premium. A provision exists in many life policies to the effect that, in the case of the total and permanent disability of the insured, the policy shall be considered fully paid for its face value and no more premiums will be required. *See* Total and permanent disability benefits.

War clauses. Such clauses are found in life insurance policies to eliminate the *extra* hazard because of military or naval service. An examination of the existing clauses in use will show considerable variations in company practices. Probably the most general practice is to use a *result cause* for operations in the home areas and a *status clause* to cover the war service outside these areas. *See* Result clause; Status clause.

Some of the companies have granted full protection in the home area to persons in the service. Other companies have excluded all deaths of people in the service in the home area. Most companies have excluded death from any cause while in service in the foreign area. In World Wars I and II the excess deaths due to war were not numerous from an insurance viewpoint; hence, costs were not appreciably influenced.

Warranties. *See* Representation.

War risk insurance. The Bureau of War Risk Insurance was established in the Treasury Department by an act of Congress, Sept. 2, 1914. Provision was made for the issuing of insurance by the United States government on American vessels and freight, passage moneys, and cargoes against loss by the risk of war. It was amended June 12, 1917, to include insurance for masters, officers, and crew of American merchant vessels against loss of life or personal injury resulting from war.

On October 6, 1917, insurance was provided against death or total permanent disability of commissioned officers, enlisted men, members of the army and navy nurse corps in service under the War and Navy Departments. Applications for insurance were required, but such persons dying or becoming permanently injured within a certain time were automatically covered.

By an act of August 9, 1921, the administration of the insurance features of the act was placed in the hands of the United States Veterans' Bureau. This was made an independent bureau, under the direction of the President.

Under this act yearly renewable term insurance was issued, which was convertible at any time within five years after the end of the war into such ordinary types of life insurance as might be adopted by the bureau. On June 30, 1945, service and ex-service men and women were carrying 567,934 government Life Insurance Policies aggregating $2,454,855,781. As of December 31, 1945, disbursements of $1,666,576,504 had been paid from insurance premiums and trust funds. *See* National Service Life Insurance.

Weekly premium insurance. *See* Industrial life insurance.

Weight of insured. For purposes of life and disability insurance, the weight of the insured is considered an

underwriting factor. Weight varies with the height and age of the individual. What the insurance company desires is an individual of normal weight. Consequently, if, from the applicant or the record, it appears that the prospect is much over or under the normal weight, the underwriter requires information about this condition. Underweight at the younger ages has its chief danger in that the risk may have a tendency to tuberculosis. At later ages, however, the fact that an individual is slightly underweight is conducive to longevity, as a rule. On the other hand, excessive weight at older ages indicates a tendency to heart disease or other disabilities. Applicants markedly over the average weight for their height and age are usually considered for insurance only on a substandard basis. *See* Height of insured.

Whole family protection. *See* Industrial life insurance.

Whole insurance. *See* Prorate clause.

Whole life annuity. Where the term of the annuity is contingent upon the entire life of a person, it may be called a *whole life annuity* to contrast it with an annuity for a temporary period. *See* Life annuities.

Whole life policy. A *whole life policy* is payable at the death of the person insured, at whatever period death may occur, without any time limitations.

The premiums under a whole life policy may be payable for the whole of life, for a specified number of years only, or until the prior death of the insured, or, in a single sum. If premiums are payable for the whole of life, the policy is called an *ordinary life policy*. If premiums are payable for a specified number of years only, such as ten, fifteen, twenty, twenty-five, or thirty, or until the prior death of the insured, the policy is known as a *limited payment life policy*. If premiums are payable in a single sum at the inception of the policy, the policy is known as a *single premium whole life policy*.

The following table illustrates the cost of a whole life policy of $1,000 at age 35, showing the various elements that enter into the make-up of the policy under the level premium system, on the assumption that the level premium is $21.08.

Attained Age at Beginning of Year	Annual Net Level Premium for $1,000	Annual Cost of Insurance for $1,000 (without interest)	Tabular Cost of Insurance for Amount at Risk	Reserve at End of Year	Amount at Risk	Sum of Reserve and Amount at Risk
35	$21.08	$ 8.95	$ 8.84	$ 12.88	$987.12	$1,000.00
39	21.08	9.59	8.94	68.16	931.84	1,000.00
44	21.08	10.83	9.25	146.01	853.99	1,000.00
49	21.08	13.11	10.05	233.28	766.72	1,000.00
54	21.08	17.40	11.70	327.58	672.42	1,000.00
59	21.08	24.72	14.20	425.49	574.51	1,000.00
64	21.08	36.87	17.59	522.92	477.08	1,000.00
69	21.08	56.76	21.85	615.14	384.86	1,000.00
74	21.08	87.03	26.27	698.21	301.79	1,000.00
79	21.08	131.73	29.73	774.29	225.71	1,000.00
84	21.08	211.36	32.97	844.01	155.99	1,000.00
89	21.08	395.86	37.37	905.59	94.41	1,000.00
94	21.08	857.14	43.04	949.79	50.21	1,000.00

Wholesale insurance. There are no important differences between what is called *wholesale insurance* and so-called *group insurance*. Some of the minor differences are: (1) wholesale insurance is applicable to groups of less than 50 but more than ten persons; and (2) under the plan of wholesale insurance, each applicant must personally apply for insurance. Wholesale insurance consists of individual policies written on a group of employees of a common employer, a group, however, that does not qualify for group insurance, usually because of the size of the group. The business is ordinarily written on the renewable term plan and is similar to group insurance in administration. In all other respects, group insurance and wholesale insurance are virtually the same. *See* Group life insurance.

Wisconsin State Fund. *See* State insurance.

Withdrawing dividend. Under the dividend options in a life insurance policy, the dividends may be withdrawn in cash. *See* Dividend options.

Witness clause. *See* Attestation clause.

XYZ

X schedule. This is one of the schedules in the annual statement. In this schedule, information is given on unlisted assets, especially data on property not included in the assets in the financial statement. Specific data are also given in this schedule of transfers in or out of the schedule during the year.

Yearly renewable term policy. A policy issued on the basis of being renewed every year and calling for the payment of a premium just sufficient to pay for the current year's insurance is called a *yearly renewable term policy*. Most *property insurance* policies are yearly and renewable at the option of the company. Comparatively few individual life insurance policies are written on this basis. Group life insurance is written on this plan. Generally there is very little reserve and exceedingly small, if any, cash or loan values on this type of insurance.

Yearly renewable term reinsurance. This is a plan for reinsurance in life insurance which is used largely by the smaller companies. Such a system of reinsurance may be either automatic or facultative. The basis of underwriting this type of reinsurance is the *net amount at risk*. Each year the initial full amount of reinsurance is diminished by the terminal reserve which correlates with the diminished face amount. Such a plan allows a life insurance company to keep a bigger proportion of the premium income. *See* Reinsurance.

Year of issue. This expression refers to the effective date when a policy is actually put into operation. Records are sometimes kept on *year of issue* and number of outstanding policies as of that date.

Yield. The word *yield* is used in several ways in life insurance. Of considerable importance is the interest yield on investments or the yields on different types of investments. Under installment or optional modes of settlement, the yield may vary depending on the type of settlement and the age of the beneficiary. The age of the beneficiary is important in relation to yields on annuity settlements because age is a factor in yields on annuities. Endowment insurance is often bought as an investment, and sometimes the question arises as to the yield of the investment portion of the endowment when separated from the protection element.

Z table. This is a table that was prepared by the Guertin Committee in

1939. It was prepared from the experience of the leading companies during the years 1920 to 1934, and has for its objective the measurement of real mortality under present-day conditions. The preparation of this table developed in connection with the most excellent and complete study of this committee on the subject of the need for a new mortality table and related topics. Because this table allows no safety margin for mortality fluctuation, it is not adaptable for safe computation of premiums or the calculation of reserve requirements. The table shows how much of an improvement has taken place when compared with the American Experience Table.

MODERN TABLE OF MORTALITY, TABLE "Z"

Age	Number Living	Number Dying	Death Rate Per 1,000
15	100,000	170	1.70
16	99,830	180	1.80
17	99,650	191	1.92
18	99,459	202	2.03
19	99,257	213	2.15
20	99,044	221	2.23
21	98,823	226	2.29
22	98,597	231	2.34
23	98,366	231	2.35
24	98,135	232	2.36
25	97,903	232	2.37
26	97,671	232	2 38
27	97,439	233	2.39
28	97,206	234	2.41
29	96,972	238	2.45
30	96,734	244	2.52
31	96,490	250	2.59
32	96,240	259	2.69
33	95,981	272	2.83
34	95,709	286	2.99
35	95,423	301	3.15
36	95,122	321	3.37
37	94,801	341	3.60
38	94,460	365	3.86
39	94,095	391	4.16
40	93,704	423	4.51
41	93,281	457	4.90
42	92,824	298	5.36
43	92,326	541	5.86
44	91,785	587	6.40
45	91,198	632	6.93
46	90,566	677	7.48
47	89,889	723	8.04
48	89,166	774	8.68
49	88,392	829	9.38
50	87,563	888	10.14
51	86,675	953	11.00
52	85,722	1,023	11.93
53	84,699	1,097	12.95
54	83,602	1,178	14.09
55	82,424	1,261	15.30
56	81,163	1,352	16.66
57	79,811	1,446	18.12
58	78,365	1,545	19.72
59	76,820	1,648	21.45
60	75,172	1,757	23.37
61	73,415	1,867	25.43
62	71,548	1,979	27.66
63	69,569	2,095	30.11
64	67,474	2,209	32.74
65	65,265	2,325	35.62
66	62,940	2,435	38.69
67	60,505	2,543	42.03
68	57,962	2,645	45.63
69	55,317	2,743	49.59
70	52,574	2,836	53.94
71	49,738	2,922	58.75
72	46,816	3,000	64.08
73	43,816	3,064	69.93
74	40,752	3,109	76.29
75	37,643	3,132	83.20
76	34,511	3,129	90.67
77	31,382	3,099	98.75
78	28,283	3,040	107.49
79	25,243	2,950	116.86
80	22,293	2,834	127.13
81	19,459	2,687	138 09
82	16,772	2,514	149.89
83	14,258	2,318	162.58
84	11,940	2,105	176.30
85	9,835	1,877	190.85
86	7,958	1,643	206.46
87	6,315	1,406	222.64
88	4,909	1,182	240.78
89	3,727	965	258.92
90	2,762	769	278.42
91	1,993	594	298.04
92	1,399	447	319.51
93	952	325	341.39
94	627	228	363.64
95	399	155	388.47
96	244	101	413.93
97	143	63	440.56
98	80	37	462.50
99	43	22	511.63
100	21	11	523.81
101	10	6	600.00
102	4	3	750.00
103	1	1	1,000.00

Section 2

ACCIDENT AND HEALTH INSURANCE

A

Accident. An event or occurrence that is unusual and unexpected under the circumstances by the persons involved is an accident. The occurrence of an event without human agency (such as fire caused by lightning) or by human agency (such as the burning of a house in consequence of a fire arising from a friendly fire built to heat the house) is also an accident. An unexpected, chance, unusual, unpremeditated, unforeseen, or fortuitous event; an involuntary occurrence; that which happens undesignedly; and an act or omission that is not the result of misconduct of the party may all be termed accidents. An accident may be anything that happens, or is a result which is not anticipated, but is unforeseen and unexpected by the person injured or affected thereby. It is an undesigned contingency, a casualty, a happening by chance; something out of the usual course of things not anticipated, and not naturally to be expected.

In accident insurance there must be, to constitute an accident within the meaning of the policy, this unforeseen, unexpected, and unintended occurrence which in turn produces a violence to the person, this violence producing a bodily injury. A hurt or an injury that is expected is not an accident within the true meaning of the policy. A distinction must be made between expected events that produce an injury and an accidental occurrence that causes the injury.

In the case of *Hutchraft Ex'rs v. Travelers' Insurance Company*, 87 Ky. 300, the court explained the meaning of *accident* in the following language:

> Accidents are of two kinds: 1. Those that befall a person without any human agency; as a killing of a person by lightning. 2. Those that are the result of human agency. The latter are divided as follows: (1) that which happens to a person by his own agency; as if he is walking or running and accidentally falls, and hurts himself; (2) that which befalls a person by the agency of another person, without the concurrence of the latter's will; as where one standing on a scaffold unintentionally lets a brick fall from his hand and it strikes the person below; (3) that which a person unintentionally does whereby another is unintentionally injured; as where one intentionally fires a gun in the air and accidentally shoots another person; (4) if one person intentionally injures another, which was not the result of an encounter or the misconduct of the latter, but was unforeseen by him, such injury, as to the latter, although intentionally inflicted by the former, would be accidental. When the injury is not the result of the misconduct or the participation of the injured party, it is to him accidental, although inflicted intentionally by the other party.

See Accidental means; Accidental result.

Accidental bodily injuries. Some of the insuring clauses of accident policies use the expression "accidental bodily injuries" or "bodily injuries effected solely through accidental means." The use of this first clause may tend to eliminate the distinction between accidental means and accidental result. When the expression "accidental means" is included, there must be an accidental cause which produces the bodily injury. But an accidental injury and injury by acci-

dental means may not be the same, and such might be the implication from the use of the expression "accidental bodily injury" by itself.

A bodily injury to be deemed as accidental should be the result of some unforeseen or unexpected event not brought about through any design on the part of the injured party. Accidental bodily injury should refer to an injury to the person of the insured due solely to an accident as the actual or direct cause.

Accidental death. In accident insurance, *accidental death* refers to death suffered by the insured traceable to an accident as the efficient or proximate cause of death. In other words, *accidental death* refers to death suffered by the insured due to an accident which was the direct cause of death. Accidental death and accidental means are not the same in meaning. Accident and disability policies pay the principal sum of the contract in event loss of life is due to an accident as defined in the policy. Payments are usually made to a direct or contingent beneficiary or to the estate as elected by the policyholder.

Accidental injury. The word *accidental* used in its ordinary, popular sense, means happening by chance, unexpectedly taking place, not according to the usual course of things, or not as expected. If an injury was unforeseen, unexpected, not brought about through any agency designedly on the part of the injured party, or a mishap was not intended to befall one, then the occurrence was "accidental." In accident insurance, *accidental injury* refers to an injury to the person of the insured, traceable solely to an accident as the actual or proximate cause. According to court decisions, however, in some states the expressions *accidental injury* and *accidental means* are not the same thing. *See* Accidental means; Accident insurance.

Accidental means. This term is very important in the insuring clause of accident policies, for the real essence of the contract is contained in these two words. The insuring clause usually specifies that the policy covers the policyholder only "against loss resulting directly and independently of all other causes, from bodily injuries effected during the term of this policy solely through accidental means." Accident insurance is not against loss due to accidents, in the loose, everyday interpretation of the word, but against loss due to accidental means. If a person does what he started to do exactly as he contemplated, there can be no accidental means, but there may be accidental results. This distinction is quite important. In order that there be accidental means, something unexpected must occur in the actual performance of the act. For example, a man carried a trunk up the front steps and strained his back. In such a case, nothing unexpected happened in the performance of the act of carrying the trunk; only the result was accidental. However, another man started to carry a trunk into a house, and, when he stepped on the second step, a board broke, and the man fell, injuring his back. The two situations just mentioned are quite different. The first is an example of accidental results; the latter a case of accidental means.

In addition, it is essential to bear in mind that the injury must be suffered "solely through accidental means." That is to say, the policy does not cover accidents if some former condition of a policyholder was a contributing cause of the accident, such as a pre-existing disease or infirmity. One insurance company manual states that accident contracts "do not cover results of bodily in-

juries sustained through intentional acts of the insured, nor do they cover loss resulting from any dormant disorder or disease brought into activity by disease."

According to R. W. Cooley, *Briefs on the Law of Insurance* (Vol. VI, p. 5234), the nature and scope of accidental means may be explained as follows:

> Whether or not the means is accidental is determined by the character of its effects. Accidental means are those which produce effects which are not their natural and probable consequences. The natural consequence of means used is the consequence which ordinarily follows from its use—the result which may be reasonably anticipated from its use, and which ought to be expected. The probable consequence of the use of a given means is the consequence which is more likely to follow from its use than it is to fail to follow. An effect which is the natural and probable consequence of an act or course of action is not an accident, nor is it produced by accidental means. It is either the result of actual design, or it falls under the maxim that every man must be held to intend the natural and probable consequence of his deeds. On the other hand, an effect which is not the natural or probable consequence of the means which produced it, an effect which does not ordinarily follow and cannot be reasonably anticipated from the use of such means, an effect which the actor did not intend to produce and which he cannot be charged with the design of producing, is produced by accidental means. It is produced by a means which was neither designed nor calculated to cause it.

It has been held (*McCarthy v. Travelers' Ins. Co.*, Fed. Cas. No. 8,682) that the cause of the death or injury as well as the result must be accidental. The cause or means was held (*Kimball v. Massachusetts Acc. Co.*, 44 R. I. 264, 117 Atl. 228, 24 Am. L. Rep. 726) to govern the result and not the result the cause, and that recovery was available only where there was something unexpected in the cause or means that brought about the result. No recovery under a policy was available where death was caused by a boil or an abscess becoming infected and erysipelas setting in, for death was caused by a disease. Sickness or disease is not covered by an accident policy.

It has been maintained that an injury is accidental if, in the act that precedes the injury, something unforeseen or unusual occurs. It has been held by some courts that injuries resulting from voluntary physical exertions are not accidental, such as death caused by rupture of the heart by overexertion, climbing steps in a hotel carrying heavy satchels, appendicitis caused by strain from bowling, lifting heavy pipe, hemorrhage from swimming against heavy current, and so forth. Such decisions are quite different from cases where it is contended that injuries may be accidental without any known extraordinary or unforeseen causes intervening. It has been asserted that injury from strain or exertion causing unforeseen effects, like the dilation of the heart, are accidents.

In one case (*Barry v. United States Mutual Accident Association*, 23 Fed. 712 [aff'd 131 U. S. 100, 33 L. ed. 60, 9 Sup. Ct. 755]), an injury was regarded as accidental because the insured believed that he would be safe in jumping from a platform as two others had just jumped from the same platform without injuries. In this case, cited by numerous courts, J. Dyer states:

> The term "accidental" is used in its ordinary popular sense, and in that sense means "happening by chance; unexpectedly taking place; not according to the usual course of things; or not as expected." In other words, if the result is such as follows from ordinary means vol-

untarily employed in a not unusual and unexpected way, then, I suppose, it cannot be called a result effected by accidental means. But if in the act which precedes the injury something unforeseen, unexpected, unusual occurs which produces the injury, then the injury has resulted from the accident, or through accidental means. . . . But, if in jumping or alighting on the ground, there occurred, from any cause, any unforeseen or involuntary movement, turn, strain, or wrenching of the body, which brought the alleged injury; or if there occurred any unforeseen circumstance which interfered with or changed such downward movement as he expected to make, or as it would be natural to expect under such circumstances, and as caused him to alight on the ground in a different position or way from that which he intended or expected, and injury thereby resulted, —then the injury would be attributable to accidental means.

The question at issue is whether there is anything accidental, *unforeseen*, or *unexpected* in the act of jumping from the time the insured left the platform until he landed on the ground.

The following causes of death by injury have been considered accidental in some cases: chloroform given before operation; poison ivy; stab by insane person; inflammation of eye from water in which clothes were being washed; poisoning by sting of insect; hanging by a mob; a stumble, causing a fall; dust blown in eyes; lightning; ptomaine poisoning; blood poisoning from tooth extraction; shoe causing abrasion; cutting a corn; hypodermic needle; surgical wound; fatal bruise; running nail in foot; skin abrasion; fright and exertion in restraining runaway horse; drowning; bite of a dog; poison taken by mistake; and so on.

Some courts have held an injury by intentional act of another to be an accidental injury if it was unforeseen by the insured and not the result of his misconduct (*Robinson v. United States Mut. Acc. Ass'n,* [C. C.] 68 Fed. 825). However, it has been asserted (*Grosvenor v. Fidelity & Casualty Co.,* 102 Neb. 629, 168, N. W. 596) that, in a narrow sense, accidental means is present only in the occurrence of an event without human agency, but this strict interpretation is not usually used in accident insurance.

In some policies, the words "external and violent" and "visible" are used to restrict the term "accidental means." At the present time, however, many companies do not make use of these restrictive words. *See* Accident insurance; External and violent means of injury.

Accidental result. There is a big difference between "accidental means" and "accidental result." A result may be accidental, but the means producing it may be exactly what was intended.

The distinction between "means" and "result" must always be kept in mind in accident insurance. Both "means" and "result" may be accidental, but there must be accidental means under the usual accident policy.

Only when an injury is caused by the occurrence of an accidental event is it covered in accident insurance. It is not enough that the result be accidental, but the means must also be accidental. If a man ruptured a blood vessel when he was demonstrating his strength by placing his hands on the arms of a chair and then raising and lowering himself, the injury would not be caused by accidental means, since he did what he intended to do although the result was accidental. If, however, in performing this act the chair slipped and a blood vessel ruptured, an accidental event would have occurred.

There has been more misunderstanding of "accidental means" than of anything else in connection with accident insurance. It means simply this: Was the force which brought about the injury, unintended and unexpected, from the standpoint of the injured?

The result of what is done voluntarily, although unexpected and unlooked for, does not necessarily make the cause accidental. The following may be accidental results without the presence of accidental means: (1) being shot for sleeping with another man's wife; (2) freezing of feet; (3) heat stroke; (4) exertion causing death by heart attack; (5) death from hernia. Just because the ultimate injurious result may have been unexpected in the foregoing examples does not make out a case of injury accidentally suffered. There must be an accidental cause which produces these injuries to take them out of the class of accidental result as distinguished from accidental means.

Accident benefits. This term is used to refer to the benefits that are paid under an accident policy in the event the policyholder is injured. Benefits may be paid in the event of accidental death. Benefits may also be paid to the insured for loss of time. More specificially, these benefits may include payments for loss of sight, loss of hearing, and loss of limbs or other dismemberments. Benefits may take the form of payments for or reimbursement of expenses for doctor's bills, hospital services, nurses' fees, and identification of insured. Some of the leading benefits may be summarized briefly as follows:

(1) Dismemberment; benefits payable for loss of hands above the wrist joint or feet above the ankle joint.

(2) Total disability; some total disability clauses provide that the insured must be unable to perform any and every duty connected with his occupation, while others require that the insured must be unable to engage in any gainful occupation.

(3) Intermediate disability; is that period of time either from the date of the accident or following a period of total disability during which the insured is unable to perform a major portion of the daily duties pertaining to his occupation.

(4) Partial disability is that period of time either immediately following the time of the accident or following a period of total or intermediate disability during which the insured is unable to perform one or more of the important daily duties of his occupation.

(5) Elective indemnity is a provision found in the usual accident insurance policy giving the insured the option of choosing, in lieu of other disability benefits, a quick cash settlement for a specified injury.

(6) The multiple indemnity clause of the usual accident insurance policy provides that the benefits payable for accidental death, dismemberment, loss of sight or for total or partial disability and the optional benefits shall, according to the terms of the clause, be doubled, tripled or quadrupled, if such losses are sustained by reason of certain designated types of accident, such as accidents occurring while using public conveyances, provided by a common carrier for passenger service; the collapse of the outer walls of a building while the insured is therein; passenger elevator accidents; lightning, etc.

Accident classification manual. In accident insurance, a manual is used that lists approximately 6,000 different occupations and classifies these various occupations into several main groups. The old grouping was as follows: select, preferred, extra-preferred, ordinary, medium, special, hazardous, extra-hazardous, perilous, and extra-perilous. When the new standard manual was issued it contained a number of changes from the old classification manual. For exam-

ple, letters instead of words are used for designating occupational classifications. Hence, in place of the old terms the new alphabetical designations with the corresponding word designation of the old manual are: A, select; B, preferred; C, extra-preferred; D, ordinary; E, medium; F, special; G, hazardous; H, extra-hazardous; I, perilous; J, extra-perilous; K, army and navy; L, coal miners; M, ore miners; N, railroad brakemen. A subdivision of class D indicating selected risks is designated in the manual by an asterisk following the letter D (D*) and corresponds to the old classification of selected ordinary.

Moreover, the new manual makes use of occupational schedules, grouping occupations under 24 groups. This list consists of: agents, automobile, brokers, clerks and salesmen, contractors, drivers, electricians, engineers and firemen, inspectors, livestock, manufacturers, machinists, merchants, metal products schedule, postal service, radio, railroad (steam), railway (cable or electric), refrigeration devices, rubber workers, sheet metal workers, teachers, telegraph or telephone, and wood products schedule.

In the new manual, commercial and industrial risks are included in one section. The railroad business is covered in a separate section. Maximum limits are suggested for the different occupational classifications. To illustrate: the principal sum of $10,000 and $50 weekly indemnity are the maximum limits of risks suggested by the new manual for classes A, B, and C.

Accident facts. Getting facts about accidents is a very difficult problem. Lack of adequate and satisfactory accident facts explains to some extent the backward condition of accident insurance. Tremendous possibilities face the accident insurance business in relation to rates, liberalization of coverage, and acquisition cost; and more facts will materially assist in the proper development of this form of insurance. If the accident insurance business is to grow and prosper to the same extent that has been experienced by the life and fire insurance business, a necessary step is to obtain more complete and comprehensive facts about accidents. The value of accurate knowledge, concerning how and where accidents occur, is evidenced as a means of promoting plant safety and reducing excessive production costs.

There are many different ways of classifying accidents. First, accidents may be considered from the standpoint of the place or point at which the accident occurs. Second, accidents may be grouped according to the kind of accident, such as public accident, home accident, industrial accident, and so forth. Accidents may also be classified according to age and sex.

One of the best sources of information dealing with accident facts are the publications of the National Safety Council of Chicago.

Some of the insurance companies have developed significant facts about accidents. The Maryland Casualty Company, for instance, reports:

> There are over 9,000,000 persons disabled by accident in the United States every year.
>
> It is estimated that one, out of every 14 persons, suffers a disabling injury every year.
>
> The average annual cost of medical care in the United States is about three and a half billion dollars.
>
> Accidents cost the nation last year, nearly 12 times the amount of the total fire loss.
>
> Ten out of every 100 men workers are disabled eight days or longer every year.

Seventeen out of every 100 women workers are disabled eight days or longer every year.

Six out of 10 hospital patients have some type of operation—one-fourth of the operations being costly major ones.

Railroad accidental injuries increased 25% in 1942.

Case after case could be recited from the claim files in insurance offices, of injuries sustained and death resulting from falls from ladders, falls down stairs, bathtub accidents, etc., which happened in the home where, statistics affirm, more accidents occur than elsewhere.

The Monarch Life Insurance Company makes this interesting observations:

Because fire insurance is considered an essential to good management it is interesting to compare the probability of loss from fire and loss from disability. *Statistics show that about one house in each 1200 suffers loss by fire every year. On the other hand, out of 1200 policyholders, our experience shows that approximately 300 will be likely to suffer loss of time from accident or illness in the same period.*

If the possibility of fire loss is important, the chance of loss by disability is 300 times as great and, we believe, equally vital to insure against.

Accident insurance. Personal accident insurance, one of the oldest forms of casualty insurance, is designed to provide weekly indemnity for loss of time resulting from an accident. Definite sums are also specified for loss of life or certain bodily injuries arising from accidents but not from illness.

This form of protection may be issued to persons in good physical condition, who have an income other than from investments, that is, those whose time has an actual value and for which they receive a monetary remuneration. Accident insurance providing weekly endowments is not issued to retired business men and women, but a life and limb form policy (death and dismemberment) may be issued.

There is a variety of accident insurance contracts issued at the present time. In the first place, there are the commercial policies and the industrial policies. The former are usually issued to business or professional men in the less hazardous classifications for large amounts requiring quarterly, semiannual, or annual premium payments; whereas the industrial policies are designed to appeal to the industrial wage-earners with the policy coverage narrower in scope and are usually written for comparatively small amounts requiring weekly, semimonthly, or monthly premium payments. Although few companies issue noncancelable accident policies, the majority of the accident policies may be canceled by the company by sending a written notice to the assured and returning the unearned premium. Under the noncancelable form, the company cannot cancel the insurance, even though the assured becomes impaired by an accident or suffers an unusual number of accidents.

There are a few accident policies issued to cover only certain defined accidents. For example, policies may be issued to cover injuries caused by an automobile, whether as a result of driving or riding in an automobile, or being struck, run over, and so forth. Other examples of limited accident policies are those issued to subscribers of newspapers. In such cases, the newspaper, by arrangement with some insurance company, provides this insurance at a very low cost to its readers; but the protection is usually limited to certain defined accidents, such as travel, automobile, pedestrian, elevator, fire, cyclone, tornado, earthquake, lightning, explosion, and so forth.

The accident ticket, issued to cover the hazards of travel, is one of the most popular forms of accident insurance. Such a coverage is usually purchased to provide protection for a few days or during the time of travel.

In addition to these special kinds of policies, there are many variations in the coverage provided by accident policies, some giving a much more liberal protection than others. The relative merits of an accident policy can be determined only by taking into consideration a number of facts, such as the policy coverage, limitations, required premium, and the individual need for protection.

The insuring clause of the accident policy usually agrees to insure the named individual "against loss resulting directly and independently of all other causes, from bodily injuries effected during the term of this policy solely through accidental means." In order for the insured to receive the benefit payments specified in the accident policy, he must be able to show that he sustained a bodily injury solely through accidental means, and also that such bodily injury so sustained was the only cause of loss.

There is a considerable difference to be found in the limitations placed upon the coverage by the various accident policies. In general, however, the typical accident policy does not cover accident, injury, disability, or death caused: (1) in any way by bodily or mental infirmity, disease, ptomaines, bacterial infections (except pyogenic infections resulting from an accidental cut or wound); (2) by suicide, while sane or insane; (3) by device for aerial navigation, whether while in, on, falling from, operating, or handling such device; (4) directly or indirectly by war or by any act of war, or suffered while the assured is in military or naval service in time of war; (5) directly or indirectly by medical or surgical treatment, unless the direct result from surgical operations caused solely by injuries covered by this insurance and performed within 90 days after the date of the accident; (6) except while the insured is within the defined territorial limits, which usually include Canada, Europe, and the United States (but exclude Alaska, Panama Canal Zone, or the insular possessions of the United States). In addition, the customary policy does not insure persons under or over the age limit (usually 18 to 60 years). Some companies do not insure women, although the general tendency is in the direction of accepting women on an equal basis with men for accident insurance.

Benefits for the following may be provided under the accident policy: (1) death, dismemberment, or loss of sight; (2) loss of time—total disability, intermediate disability, partial disability; (3) elective or optional indemnity; (4) surgical, hospital, and nursing; (5) physicians' services; (6) identification; and (7) multiple indemnity.

The accident policy usually has a provision for the payment of the principal sum for the loss of life, both hands, both feet, sight of both eyes, one hand and one foot, and one hand and sight of one eye. A fraction of the principal sum may be specified, such as two thirds, for the loss of one leg or arm; one half for the loss of one hand or foot; one third for the loss of the sight of one eye. In some policies, the loss of fingers is covered. In a few cases the entire and irrecoverable loss of speech and hearing is covered. Under most contracts the loss must occur within 90 days from the time of the accident, unless the injury and loss are connected by a continuous period of total disa-

bility, in which case the limit is usually 200 weeks. Only one of these indemnities is paid, except that the total disability benefit may be paid from the occurrence of the accident until the loss is suffered.

The total disability provisions of accident policies vary. Some require that the insured must be unable to perform any and every duty in connection with his occupation, while others require that the insured must be unable to engage in any gainful occupation. The total disability benefit is payable regardless of whether the insured's income is lost because of his injury, provided he is incapable of engaging in his occupation. The benefit is limited to an amount not exceeding a certain percentage generally 80 per cent) of his average weekly wages. In some policies the total disability benefit is payable for the period of total disability; in other contracts it is reduced after a certain duration, or a time limit is specified, such as 52 weeks, 200 weeks, and so forth. In the case of permanent total disability arising from dismemberments, such as the loss of both hands or legs, or the sight of both eyes, the insured is sometimes given the opportunity to select either the principal sum payment or the total disability weekly benefit for life.

Forms introduced on January 1, 1929, by member companies of the Bureau of Personal Accident and Health Underwriters, eliminated the clause providing indemnity for life in the event the assured is injured to the extent that he cannot continue at his own occupation and provided two substitute clauses: (1) indemnity for one year in case injury sustained by the insured prevents him from engaging in his own occupation but permits him to do other work; and (2) life indemnity if the insured is prevented by the injury from engaging in any occupation or trade of any kind. Such changes are intended to cut the loss ratio on dismemberments.

Partial disability benefits are payable for disability that results in the incapacity of the insured to perform one or more important duties of his occupation, whether such partial disability immediately follows the accident or a period of total disability. These benefits are usually limited: (1) to about one half of the total disability benefit; and (2) to periods of 26, 52 weeks, and so forth. In lieu of the disability benefits, the insured may elect payment for certain defined injuries (such as loss of toes, fingers, dislocations, or fractures), as provided in the schedule of elective or optional indemnities.

A schedule of operation indemnities is usually incorporated in the accident policy, and surgical fees are payable in addition to the weekly benefits if the specified operations are necessarily performed as a result of the accidents within 90 days from such accidents. Most accident policies provide that, if surgical attention is required as the result of an accident, such a benefit may be paid but not exceeding one weekly payment for total disability. This benefit is not paid if the assured receives payment for dismemberments or for loss of time.

A hospital benefit is usually paid if the injury requires the insured to be placed in a hospital within 90 days from the accident. This benefit is usually limited to one half of the weekly indemnity and to a period of from 10 to 20 weeks. In lieu of this hospital benefit, some accident policies provide for the payment of a nurse's fee if a graduate nurse is required. Nurses' fees are not, as a rule, paid in addition to the hospital indemnity.

The accident policy contains a pro-

vision that allows a benefit (often limited to $100) to pay the cost necessary to place the policyholder in the care of friends, in case, as a result of disability, he is unable to communicate with friends.

Some accident contracts contain a provision that specifies that the payments for death, dismemberment, loss of sight, and loss of time will be doubled (sometimes tripled or quadrupled) if the injuries are sustained from certain specified accidents, such as travel, elevator, fire, explosion, tornado, lightning, and so forth.

The accident policy may contain a provision that the principal sum will be increased (from 5 to 10 per cent of its original sum up to 50 per cent) each year if the premiums are paid annually in advance. This is sometimes called the accumulation feature.

Accident policies are often issued subject to a waiting period, during which time of disability following the accident no benefit is payable. Such a form of insurance is considerably cheaper than the first day coverage, and it is valuable to persons who desire protection only for the more serious injuries.

Although the accident insurance policies are not standard, they do contain certain standard provisions, which were required in many states on Jan. 1, 1914, by the passage of the Standard Provision Law. In brief, these provisions are for the protection of the insured against false policies and fraud and relate to: (1) change of occupation; (2) changes in policy; (3) reinstatement of policy; (4) time of notice of claim; (5) sufficiency of notice; (6) form for proof of loss; (7) time for filing proof of loss; (8) medical examination or autopsy; (9) immediate payment of indemnities; (10) weekly indemnity payable in installments; (11) to whom indemnities are payable; (12) cancellation by insured; (13) rights of the beneficiary; (14) limitations of time for bringing suit; (15) limitations controlled by statute; (16) cancellation by the company; (17) pro rata payment in case of similar policy; (18) overdue premiums; (19) excess insurance; and (20) age limits. The first 15 are required and the others are optional.

Since accident insurance, with the exception of the noncancelable form, is written without a medical examination, the application plays a very important part in the underwriting. Such information as the following must be accurately given: name, age, height, weight, sex, color, residence, exact nature of occupation, business address, beneficiary, past accident experience, amount of weekly earnings, diseases suffered, habits, operations undergone, whether previous accident or health insurance has been declined, canceled, postponed, modified, and so forth.

Accident insurance rates are based upon the occupation and age of the policyholder. For a good many years occupations were given ten classifications: select, preferred, extra-preferred, ordinary, medium, special hazardous, extra-hazardous, perilous, extra-perilous, and there was a separate class for army and navy men. The select and preferred classes were often subject to the same rates. The accident and health manual that came into use in 1930 changed the former occupational classifications. Classifications of occupations, exposures, and hazards are now designated by the letters A, B, C, D, E, F, G, H, I, J, K, L, M. The classification manual gives opposite each classification the maximum amount of insurance (principal sum and/or single weekly indemnity) that may usually be written on such a risk. The rates for ac-

cident insurance are not uniform among the many companies writing the business.

As a summary to accident insurance, it is well to keep in mind the essential points to be considered in any particular accident policy, such as: (1) the relation of the premium rate to the coverage provided; (2) the unit of insurance or the amount of the principal sum and the weekly indemnity (for example, $1,000 principal sum with $5 weekly indemnity); (3) the kind of an accident that is covered; (4) the restrictions and exclusions; (5) the time limit in which death or dismemberment must occur; (6) the death and dismemberment schedule; (7) the limitation of time and amount on the weekly indemnity; (8) the amount of partial disability indemnity; (9) the payment of the weekly indemnity in addition to the principal sum for specific loss from the date of the accident to the date of the loss; (10) the payment of elective lump sums for specific injuries in place of the weekly indemnity; (11) the provision for hospital, surgical, nursing fees, and medical attendance for nondisabling injuries; (12) whether the identification clause covers both injury and illness; (13) whether the double indemnity applies to the principal sum only, the weekly benefit only, or to both; (14) the age limits; (15) the cancellation privilege; (16) the ability of the policyholder to renew the contract; (17) the company issuing the contract; and (18) the particular requirements of the applicant. It is a good idea to examine or check accident policies for these features. *See* Accidental means; Accumulation; Automobile accident policy; Cancellation clause, accident and health policy; Commercial accident and health insurance; Disability provisions of life insurance; Dismemberment, loss of sight, or death indemnity; Double indemnity; Elective indemnities—accident insurance; Group accident and health insurance; Hospital indemnity—accident insurance; Identification benefit; Industrial accident and health insurance; Installment option to beneficiary; Intermediate disability; Limited accident policy; Medical attendance indemnity; Monthly indemnity; Multiple indemnity provision of accident policy; Newspaper accident policy; Ninety-day clause (in Section One); Noncancelable accident and health policy; Nursing indemnity; Partial disability; Permanent total disability—accident insurance; Physical defect of insured; Protracted disability; Standard provisions law—disability policies; Surgical operation indemnity; Waiting period accident and health insurance.

Accident insurance policy. This is a policy providing indemnities for death, dismemberment, injuries, or loss of time (earning power) caused by accidental means.

There is no legal standard policy or standard policy provisions in most states. However, it is customary to call certain provisions generally used by most companies standard provisions.

Companies must comply with the provisions of the law and the policies are required to contain certain standard provisions numbered and written in the form provided by the law.

The policy contract includes the policy, application, and endorsements, if any.

The following provisions and information appear on the face of the typical accident insurance policy: (1) name of the company; (2) policy number; (3) age of policyholder; (4) the insuring clause; (5) statement about application; (6) double indem-

nity benefits; (7) the beneficiary; (8) disability benefits; (9) the consideration clause; (10) policy settlement; (11) the sum insured.

Accident indemnity insurance. *See* Indemnity; Indemnity benefits.

Accident only policy. This policy provides indemnities for death, dismemberment, or injuries caused by accidental means. No coverage for sickness or disease is provided in an accident only policy.

Accident plus reimbursement coverage. *See* Reimbursement.

Accident ticket policy. *See* Ticket accident policy.

Accumulation. Some accident and health insurance policies are issued containing a provision whereby the principal sum increases with each actual renewal for a term of years. The purpose of this provision is to encourage the policyholder to renew the contract and thus establish permanent business, as well as to create an incentive for the payment of annual premiums in advance. Such a clause may specify:

> If all premiums are paid annually, the original principal sum hereby insured will be increased ten per cent beginning with the second year and continuing for five consecutive years, until such increases amount to fifty per cent of the original principal sum, and thereafter, so long as this policy is maintained in force by annual premium payments, the amount insured shall be the original principal sum plus the accumulations. If premiums are paid otherwise than annually, the original principal sum hereby insured will be increased five per cent beginning with the second year and continuing for ten consecutive years, until such increases amount to fifty per cent of the original principal sum and thereafter, so long as this policy is maintained in force, the amount insured shall be the original principal sum plus the accumulations.

This is sometimes referred to as the "merit rating" clause if it provides for a decrease in premiums on renewal or an increase in the indemnity provisions.

Additional provisions. Certain additional provisions, often called "general provisions," are necessary to define and limit the coverage intended by the indemnity clauses, because of frequent court rulings to the effect that in all cases of doubt the interpretation is usually in favor of the insured. Unless a borderline condition is specifically ruled out, a court is very likely to take the attitude that it comes within the general provisions of the policy.

As a group the additional provisions define terms found elsewhere in the policy and protect the company against fraudulent claims or risks beyond the reasonable scope of accident and health protection.

Because of the variations in the different contracts, it will not be possible to cite all the additional provisions in detail. Reference will be made largely to the intent of the various clauses and the reader can refer directly to a specific contract in studying the actual wording.

One of the clauses in the additional provisions section is the exclusion of certain types of losses that are not covered by the policy. The purpose of these exclusions is to remove acts which cannot be considered to result from accidental means. Typical of this exclusion clause is the following:

> B. The insurance under this Policy shall not cover accident, injury, death, disability or other loss caused directly or indirectly, wholly or partly, (1) by hernia, (2) by bacterial infections (except pyogenic infections which shall occur with or through an accidental cut or wound), or (3) by any form of disease, or (4) by war or any act of war or suffered by the Insured while in military or naval service in time of war; or sustained by the Insured (1) while in or on any vehicle

or mechanical device for aerial navigation, or in falling or otherwise descending therefrom or therewith, or (2) while operating or handling any such vehicle or device; nor shall it cover suicide or any attempt thereat (sane or insane).

Another additional provision states that the policy may be renewed with the consent of the company from term to term, at the company's premium rate in force at the time of renewal. This provision would not apply to a noncancelable policy.

A third provision covers the matters of assignment, change of beneficiary, charter provisions, and failure of insured to comply with the terms of the contract. Such a provision usually states:

D. No assignment of interest under this Policy shall be binding upon the Company unless and until the original or a duplicate thereof is filed at the Home Office. The Company does not assume any responsibility for the validity of an assignment. No change of beneficiary under this Policy shall bind the Company unless consent thereto is formally endorsed hereon by an executive officer of the Company. No provision of the charter, constitution or by-laws of this Company shall be used in defense of any claim arising under this Policy unless such provision is incorporated in full in this Policy. Failure to comply with any of the provisions contained in this Policy shall invalidate all claims hereunder.

Another additional provision defines the *company* the *insured,* the *beneficiary* and the word *injuries.*

There is an additional provision which deals with the consideration for the contract and statements made by the insured. Such a section usually says:

This policy is issued in consideration of the premium charged therefor and of the statements made in the application, a copy of which is endorsed upon and is hereby made a part of this contract. The falsity of any statement in the application for this policy materially affecting either the acceptance of the risk or the hazard assumed hereunder, or made with actual intent to deceive shall bar all right to recovery under this policy. No provision of the charter or by-laws of the Company not included herein shall avoid the policy or be used in evidence in any legal proceeding hereunder.

Other additional provisions may deal with such matters as the elimination period, reduction of indemnities, acts of the company in relation to waiver, the grace period, and termination of the policy.

Some additional provisions deal with other definitions such as bodily injury, total disability, partial disability, dismemberment, loss of eyesight, and death. The aggregate disability benefit statement is usually found in the additional provisions section.

Adjusting the insurance. Standard provision No. 1 makes an adjustment of the insurance because of change of occupation if the prorating form is used. Premium rates in accident insurance are largely based on occupation, and an adjustment is made to correct the difference in cost if the insured changes his occupation to a more hazardous one. Some companies, however, use the nonprorating form of this provision. *See* Change of occupation.

Adverse selection. *Adverse selection* occurs in accident and health insurance when too large a proportion of policies issued by a given company insure persons who are considered substandard, at an inadequate rate. The occupational hazard does not necessarily create an adverse selection since the premium rate is presumed to be sufficient to cover the hazards of the occupation. Examples of sub-

standard risks, where an inadequate rate may exist, are persons who contemplate a hazardous journey or undertaking and persons who have physical defects which may cause early claims.

A company is considered to have the "benefit of selection" when the agent exercises proper care in the inspection of risks, and in bringing out all pertinent information in the application.

Affidavit of claim. This is a form that is required when a claim is filed. Complete information as to the following is usually required: regular occupation on date of injury; date injured; place; doing what when injured; full description of how injury was received; description of injuries; age.

Age limits. Many forms of personal insurance fix minimum and maximum age limits below and above which individuals are not accepted for insurance. In accident insurance, for example, individuals are not insured who are under 18 years of age. Several reasons exist for this minimum limit: (1) persons too young lack caution and usually are somewhat irresponsible; (2) young people do not earn their own living; and (3) inability of young persons to understand the nature of the contract. The maximum limitation is usually 60 years; seldom over 65. The reason for the maximum limitation is because old age brings an increased hazard.

Optional standard provision No. 20 provides for age limits, as determined by the company, which the policy may be written to cover. If a company accepts a premium for a person outside the company's fixed age limits, the premium is returned to the insured on request, for the company is not liable on risks beyond its stated age limits. New risks are generally written at age limits from 18 to 60. Renewals may be carried to age 70. Age limits may vary as between men and women. Some companies will not renew female risks beyond age 65.

Agent's power to waive. No agent has authority to change or waive the provisions of an accident or health policy. Amendments or riders are effective only where signed by an official of the company. *See* Waiver.

Aggregate indemnity. This is one type of noncancelable policy. Under the terms of the aggregate disability benefit clause, usually found in the additional provisions of the policy, a limit is placed on the collective or aggregate indemnity for all disabilities incurred during the life of the policy. When that limit has been reached, no further benefits are payable and the policy is automatically terminated. The weakness of this form of coverage is that the insured may still be disabled when the coverage ends. *See* Maximum disability type policy.

Airplane accident insurance. While many accident policies still retain the exclusion for injuries resulting from airplane accidents, the progress in aviation has caused some companies to make a step in the direction of co-operation with this method of transportation and make it possible for airplane passengers to be protected by accident insurance. Such a provision gives insurance protection against death or injuries accidentally received while riding in aircraft. It is needless to say that this extension of the accident policy is valuable to persons traveling by airplane. Some companies, for example, issued an accident policy to cover accidental bodily injuries suffered by the insured as the result of aircraft accidents, if the insured is a fare-paying passenger on the aviation route.

The provisions of this coverage usually read:

> The Company will pay indemnity, to the extent otherwise provided in the Policy, for any loss specified therein which shall result from injuries caused by accidental means while the Insured is riding as a fare-paying passenger in a passenger aircraft owned and provided by an incorporated passenger carrier, and operated by a licensed pilot on a scheduled trip over an established passenger route of such carrier, and between definitely established airports, and provided such aircraft is not being used for a flight in excess of 300 continuous nautical miles over water.

See Aviation ticket policy; Airsurance policy; Passenger aviation rider; Aviation pilot policies.

Airsurance policy. This is really a type of compensation insurance. The policy indemnifies an employer if executives or employees are killed while traveling in an airplane. Policies are written for as high as $10,000 per individual named in the contract. The policy was first issued in 1936.

Alteration of occupation. *See* Occupation of insured; Change of occupation.

Altercation. An altercation is a controversy or wrangle which usually ends in physical violence. An example is found in cases where people drink themselves into a heated controversy with words, such controversy ending in a brawl or fist fight. If an insured provokes an altercation and is injured as a result, the injury is not accidental, for the cause of the injury was deliberate and premeditated.

Amendment rider. This is a form sometimes used when a policy is modified in some manner. The following is a typical example:

> To be attached to and form a part of Policy Number ...... issued to .... by the Blank Casualty Company.
>
> Acknowledgment is hereby made in relation to the above mentioned Policy that the Insured will be covered for the minimum amounts in the Policy (excluding payment of double, triple, or quadruple indemnity, if any, specified in the Policy) while in military or naval service of the United States on land within the continental limits of the United States, except that this concession shall not apply to injuries sustained by reason of an enemy invasion or bombardment.

Amputation. *See* Accident insurance.

Anesthetic. Death resulting from the administration of an anesthetic is generally held not to be caused by accidental means. In some instances, however, it has been held by the courts that death following the administration of an anesthetic is the result of accidental means (*Wheeler v. Casualty Co.*, 1933, 251 N. W. 408). Some companies specifically exclude death from anesthetics in their policies because of the variation in court interpretation of anesthetics.

Any and every occupation. This expression arises in connection with the definition of total disability. Some accident policies define total disability as inability to engage in "any and every occupation or employment for wage or profit." This expression might be interpreted as total disability only when the insured is disqualified for any work similar to that in which he was ordinarily engaged, or for which he may be capable of fitting himself. On the other hand, a strict construction of the expression "any and every occupation" might mean any type of remunerative work not necessarily associated with the assured's previous occupation. Much depends on the construction of this expression as to whether an insured is totally disabled or not. *See* Total disability.

Application. The following information is required to be given in the

usual application for accident and health insurance: name, age, height, weight, sex, color, residence, occupation, business address, beneficiary, past accident and sickness experience, amount of weekly earnings, habits, operations undergone, whether previous accident or health insurance has been declined, canceled, postponed or modified.

From these statements, the company determines the classification and the premium to be charged for the insurance. These statements also determine the maximum amount of indemnity that the company wishes to grant. It is necessary that the company have knowledge of present and previous insurance to enable them to check the applicant's history with reference to accident and health insurance.

The company either issues the policy, rejects the insurance, or determines the necessity for a medical examination from information contained in the answers given to the questions in the application.

The application must be stated in or attached to, and becomes a part of, the policy contract. Answers given to the questions contained therein become warranties; therefore, it is necessary that the application be personally signed by the applicant.

When any one or more of such statements are false, and if such false statement was made with actual intent to deceive, or if it materially affects either the acceptance of the risk, or the hazard assumed by the company, any right to recover under the policy is forfeited.

Arbitration clause. This clause is rarely found in accident and health insurance policies. Such a clause might eliminate the slow and wasteful methods of court litigation. Such has been the case in fire insurance. Under an arbitration clause, disputes are settled by independent and impartial arbitrators by mutual consent of the insured and company without recourse to the courts. Arbitration methods in other forms of insurance have been found more satisfactory than court litigation.

Asphyxiation by gas. Accident insurance policies may specify that the company is not liable for death caused by "inhaling gas." Regarding such an exclusion, the leading case (*Paul v. Travelers' Ins. Co.,* 112 N. Y. 472, 20 N. E. 347, 8 Am. St. Rep. 758, 3 L. R. A. 443) maintained that this limitation is applicable only to voluntary inhaling of gas, as in medical treatment, and that it is not applicable to accidental asphyxiation by inhaling gas that has accidentally entered the room while the insured is asleep. This same construction has been put upon this exception in other cases where the policy excluded anything accidentally or otherwise inhaled. Other courts have held the company not to be liable, where there is an express stipulation in the policy relieving the insurer from liability for injuries from the voluntary or involuntary inhalation of gas (*Porter v. Preferred Acc. Ins. Co.,* 95 N. Y. S. 682).

Some companies have a special clause in their policies covering asphyxiation, freezing, and hydrophobia suffered through accidental means.

Assault. Assault provoked by the insured that results in an injury is not within the meaning of accident in accident policies. On the other hand, an assault upon the insured without any responsibility or provocation on the insured's part is an accident. Injuries sustained by an assault, either provoked or unprovoked, may be excluded from accident policies.

Assessment clause. Mutual companies may include a clause in accident and health insurance policies whereby an assessment may be levied on the policyholders. Such an assessment is generally for the purpose of making up for the insufficiency of a premium. Usually such assessments are limited to a fraction of the early premium.

Assignments. Standard provision No. 13 provides that the insured has the right to change his beneficiary, or to have changes made in the policy, or to assign the policy, without the consent of the beneficiary. Complete control of the policy is given in standard provision No. 13 to the policyholder. This standard provision may be omitted from policies in which all benefits are payable to the insured. Insurance companies will not assume any responsibility for the validity or sufficiency of assignments because assignments are agreements to which the company is not a party. The matter of assignment is often mentioned in the "additional provisions" section of a policy. Generally, this part of the policy says: "No change of beneficiary and no assignment of interest under this policy shall bind the company unless the written consent of the company is endorsed by the proper company official."

Associated hospital service. *See* Hospitalization insurance.

At occupation (AO). In accident insurance underwriting, accidents occurring or arising in connection with a person's occupation are classified in one group and distinguished from accidents foreign to the individual's occupation. *See* Accident insurance.

Authority of agents. *See* Agent's power to waive; Waiver.

Automobile accident policy. A limited form of personal accident insurance may be issued to provide protection against bodily injuries sustained by the assured caused by an automobile. This, of course, is quite a different form of insurance from an automobile public liability policy. The agreement of the contract often stipulates that the policy covers:

1. A loss that is defined as accidental and sustained solely through accidental means.
2. A loss pertaining to the driving, riding in, operating, or in consequence of the burning or explosion of an automobile only.
3. Payments for death, dismemberment, or loss of sight resulting within 60 days of the accident.
4. Payments of 26 weeks' indemnity for total disability and 4 weeks' indemnity for partial disability.
5. Payments for hospital expenses, including nurse fees, hospital room, operating room, and anesthetic administration.
6. Payments for surgeon's fees for non-disabling injuries.
7. The identification of the insured.

A specific amount is shown after each of the benefit provisions. The following are typical of the exclusions and limitations found in the personal automobile accident policy:

The insurance under this Policy shall not cover,

(1) suicide or any attempt thereat, while sane or insane or
(2) any injury which shall result in hernia; nor shall it cover
(3) accident, injury, death, disability or other loss
 (a) caused directly or indirectly, wholly or partly, (1) by bodily or mental infirmity, (2) by disease in any form, (3) by gas poisoning or asphyxiation, or (4) by war or any act of war;
 (b) sustained by the Insured (1)

while in military or naval service in time of war, riot or insurrection, (2) while an occupant of an automobile being driven in any race or speed contest or being tested on any race track or speed way, (3) while performing any duty as a member or employee of a paid fire or police department, or (4) while operating, driving, adjusting, repairing or cranking an automobile for wage, compensation or profit.

The Company shall not be liable for death or injury incurred to which a contributing cause was the Insured's commission of, or attempt to commit, a felony, or which occurs while the Insured is engaged in an illegal occupation.

The Company shall not be liable for death or injury incurred while the Insured is intoxicated or under the influence of narcotics unless administered on the advice of a physician.

The term "automobile" as used in this Policy shall not include a tractor, motorcycle, nor any vehicle or mechanical device for aerial navigation.

The insurance under this Policy shall not cover any loss resulting from injuries received or disability sustained outside the limits of the United States of America, its territories or possessions, Canada or Newfoundland.

Autopsy. An autopsy is a post-mortem examination, or inspection of a dead body to ascertain the cause of death. Unless prevented by state law, an insurance company, under certain insurance policies, accident policies, for example, has the right, before paying the claim, to find out for itself the cause of death by an examination or autopsy. For example, one of the standard provisions, No. 8, that must be incorporated in accident policies states, in part, that the company shall have "the right and opportunity to make an autopsy in case of death where it is not forbidden by law." The privilege of making an autopsy must be acted upon promptly, for only under special circumstances will the right of an autopsy be allowed after burial. *See* Accident insurance.

Aviation hazard. Many accident policies contain an exclusion against engaging in or participating in aviation or aeronautics. Some companies make the exclusion read, "participating in aviation except as a fare-paying passenger." "While engaged in aviation" is another form of exclusion clause used. *While engaged in* may be distinguished from *participating in.* Traveling as a passenger in an airplane may not be participating or engaging in aviation, and the hazard might be covered in spite of the exclusion. Much depends on the court interpretation of the expression.

In connection with writing aviation insurance one company writes:

All forms of Accident policies now issued by this Company contain a clause excluding all liability on the part of the Company for any loss caused by bodily injuries received by the Insured while participating in any form of aviation. The Company recognizes that commercial aviation is an important part of the development of general business enterprises, and is prepared to extend coverage under full coverage policies to include losses insured against if received by the Insured while he is riding as a fare-paying passenger either in a licensed passenger airplane or a licensed passenger dirigible airship owned and provided by an incorporated passenger carrier and while operated by a licensed passenger pilot over a definitely established regular passenger route of such carrier and between definitely established airports.

This extension shall not cover loss sustained in any airplane or dirigible airship while it is being used for flights over water in excess of 300 miles, sightseeing or special or chartered flights, or in any

military or naval airplane or dirigible, or in any form of aviation travel or hazard not hereinbefore specified; nor shall it cover injuries sustained by the Insured while acting as pilot, mechanic or member of a crew of an airplane or dirigible. Nothing herein contained shall entitle the Insured for any such loss to the double indemnity, if any, specified in the Policy.

This coverage is furnished to the business or professional man who makes an occasional trip by air over an established route of travel. The Company is not now prepared to extend the coverage beyond that provided by the Rider, even for an additional premium.

Aviation pilot policies. Accident policies for pilots are in a stage of development. Some companies issue such policies for pilots on established air routes or for a licensed private airplane. The rate is relatively high. Flying is generally limited to the continental United States, and the policy excludes coverage for violation of the Civil Aeronautics Authority.

Aviation ticket policy. This policy is patterned after the railway ticket accident policy. It is sold at the airports and covers travel on the regularly established lines for passengers. Such policies are also called aviation trip policies. Some forms cover death and dismemberment only. Other forms may include weekly indemnities for injuries. *See* Passenger aviation rider.

B

Bacterial infection. Some companies definitely exclude coverage by bacterial infections. This exclusion is usually found in the additional provisions section of the policy. *See* Pyogenic infections.

Beneficiary. A *beneficiary* is defined as a person with an insurable interest in the life of the insured to whom a policy is made payable. A beneficiary under an accident insurance policy is eligible to receive only death benefits accruing thereunder. All other benefits are payable to the insured. The assured has the right to change the beneficiary with the consent of the company, and without the consent of the beneficiary.

A husband, wife, father, mother, child, brother or sister may be named as the beneficiary or the policy may be drawn payable to "executors, administrators or assigns," or to the insured's employing firm or corporation. There may be cases when a creditor or a friend may be a proper beneficiary because of a tangible honorable interest in the life of the applicant. When a creditor or friend is named, the interest of such beneficiary must be stated with care either on the application or by correspondence.

Benefit provisions. Accident insurance policies provide many and varied forms of benefits. In this respect they differ from life and fire insurance policies, which on the whole provide protection against a single hazard. It is hardly possible to enumerate all the possible benefits that may be payable under an accident insurance policy, but the following are perhaps the leading benefits provided:

(a) Indemnity for accidental death.

(b) Indemnity for dismemberments (loss of hands, feet or eyes by accidental means).

(c) Indemnity for loss of time (earning power) due to accident disability.

(d) Indemnity for loss of time (earning power) due to sickness disability.

(e) Special indemnities for operations, dislocations, fractures, hospital treatment, nursing, identification, etc.

Some of the benefits are often listed in a schedule such as the following:

DEATH, DISMEMBERMENT AND LOSS OF SIGHT

Pays for Loss of Life.......The Principal Sum

Payments for Loss of	*A Sum Equal to Weekly Indemnity for*
Both Hands or Both Feet......	200 Weeks
Sight of Both Eyes.............	200 Weeks
One Hand and One Foot.	200 Weeks
Either Hand or Foot and Sight of One Eye............	200 Weeks
Either Hand or Foot.	100 Weeks
Sight of One Eye..............	65 Weeks
Thumb and Index Finger of Either Hand..........	50 Weeks

Time Limit. Within 200 weeks after the date of accident provided disability be total and continuous, or within 90 days irrespective of total disability.

Accident benefits become effective immediately upon issuance of the policy and sickness benefits usually become effective 15 or 30 days after date of issue—the length of time depending upon the practices of the various companies.

Indemnity for loss of life by accident is payable to the beneficiary named in the policy. All other indemnities are payable to the insured.

In addition to the death and dismemberment benefits, the policy may provide for: (1) funeral benefits; (2) hospital; (3) nurses; (4) doctor's fees; (5) legacy supplement; (6) quarantine; (7) waiver of premium; (8) surgical; (9) identification; and (10) elective benefits. Each of these benefits are discussed separately in this book.

Blanket medical expense. A blanket medical expense coverage is one that pays all expenses for doctors, nurses, surgeons, hospitals, and Xrays. Separate insurance for each of these coverages is not needed if the blanket medical coverage is purchased.

Blanket policy. A blanket accident or health policy is one issued to cover a number or a group of individuals. *See* Group insurance.

Blindness indemnity. *See* Permanent total disability—health insurance; Permanent total disability—accident insurance.

Blood poisoning indemnity. Some accident insurance policies specify that blood poisoning or septicemia resulting directly from such injury shall be deemed a bodily injury within the meaning of the policy. Some accident policies issued to physicians, surgeons, dentists, undertakers, or embalmers may be extended "to cover, in event of death, loss of limb or sight, or disability from septic infection, which is the result of external inoculation through accidental contact with septic matter." *See* Accident insurance.

Bodily infirmity. *See* Health insurance.

Bodily injury. In personal accident policies this term is of great importance. As a rule, the term is specifically defined in the policy. The usual insuring clause of an Accident insurance policy provides that the loss must result "directly and independently" of all other causes from bodily injury and the bodily injury must be effected solely through accidental means. The bodily injury must be caused by accidental means, and in some limited policies with external, violent, and visible signs of injury. It is not essential, in order to recover under a typical personal accident policy, that the bodily injury be visible or external. Internal injuries or death from drowning may be considered sufficient bodily injuries to recover payment under the policy. Other instances of accidents that cannot be classified as being strictly due to external, violent, and accidental means would be the lodging of a fish bone in the internal organs, asphyxiation by gas, and swallowing hard substances. Some of the courts have held the following to be in the nature of bodily injuries:

(1) Injury causing death; a lifeless body has been held to be a sign of the injury within the meaning of the policy.
(2) Discoloration of the injured part.
(3) Pallor of the insured person.
(4) Mental derangement.
(5) Internal condition evidenced by an autopsy.
(6) A condition shown by physical examination of the muscles.
(7) Finding gas or water in the lungs.
(8) Signs of poison-ivy appearing on the skin.

See Accident; Accidental injury; Accidental means; Accident insurance; External and violent means of injury; External and visible signs of injury; Excepted causes of accidental injury or death.

Budget sickness (health) insurance policy. This policy provides a reimbursement for expenses resulting from sickness or disease. In addition a daily payment is made for hospital indemnity, nurse's hire, surgeon's fees, hospital benefits, and miscellaneous expenses for Xrays, laboratory tests, medicines, surgical dressings, and use of operating room.

Build. *See* Weight.

Burial transportation indemnity. A few accident policies provide, in addition to other indemnity for accidental loss of life, the cost of transportation of the remains to the place (city or town) of burial, but not in excess of one twentieth of the principal sum. *See* Accident insurance.

Business accident and health insurance. *See* Group accident and sickness insurance.

C

Cancellation clause, accident and health policy. Most accident policies are issued with a cancellation clause which gives the company the privilege to cancel the policy by giving the insured written notice and returning the unearned premium, or gives the company the right to *refuse to renew* the policy at the end of the policy period. Optional standard provision No. 16 provides for the cancellation of the policy. For example, such a provision stipulates:

> The company may cancel this policy at any time by written notice delivered to the insured or mailed to his last address as shown by the records of the company together with cash or the company's check for the unearned portion of the premium actually paid by the insured and such cancellation shall be without prejudice to any claim originating prior thereto.

This provision is very important because it gives the company the right to terminate the risk. If the policyholder becomes physically impaired by injury or disease, the company may decide to cancel the contract. Moreover, the insurance company is not under any obligation to renew this insurance, which is issued usually only for a short term, not more than a year. In other words, the usual accident and health policy is issued upon the assumption that the insured is in normal physical condition and that he will remain in this condition during the life of the policy, and if the policy is renewed, the assured again warrants that he is in normal physical condition. If the assured becomes physically impaired, he will be left without accident and health insurance at the time he needs it most, for the company will either cancel his insurance or refuse to renew it. This, of course, means that such protection is not permanent. *See* Noncancelable accident and health policy; Accident insurance; Health insurance.

Capital sum. Some accident policies make a distinction between a payment called the "principal sum" and

payments entitled "capital sum." The principal sum is paid for loss of life. The capital sum is a sum equal to the weekly indemnity and is payable as follows:

Both Hands, Both Feet, Both Eyes	200 Weeks
One Hand and One Foot	200 Weeks
One Hand and Sight of One Eye..	200 Weeks
One Foot and Sight of One Eye ...	200 Weeks
One Hand or One Foot..	100 Weeks
One Eye	65 Weeks
Thumb and Index Finger of Either Hand	50 Weeks

Causes of disability. For purposes of accident and health insurance as well as the disability provisions of life insurance policies, the causes of disability are important. Tuberculosis, cancer, heart ailments, and insanity are the leading causes of sickness disability. Automobile and home accidents are the chief causes of accidental disability.

Certain standard provisions. The term *certain standard provisions* and the five optional standard provisions recommended at the convention of the National Association of Insurance Commissioners held in 1912. These standard provisions are included in the accident policies in most states. *See* Standard provisions.

Certificate of identification. Some accident policies specify that "upon the issue of this policy, the insured is entitled to a certificate of identification" which states the identification indemnity provided by the policy. *See* Identification benefit; Accident insurance.

Change of beneficiary. The assured has the right to change the beneficiary or any other terms or conditions of the policy with the consent of the company and without the consent of the beneficiary. This provision is found in the policies as a result of standard provision No. 13. *See* Assignments.

Change of occupation. If a health and accident policyholder changes his occupation the new occupational rating is the same as the old, the policy is not affected. If the new occupation is more or less hazardous, the company may adjust the premium, or the benefits, in case the prorating form of standard provision No. 1 is in the policy. If an accidental injury is sustained while performing the duties of the more hazardous occupation, before the policy has been adjusted, the company will pay indemnities equal to the sum which the premium paid would have purchased for the more hazardous occupation.

Under the terms of standard provision No. 1 the company may insert in the policy either a provision that no reduction shall be made in any indemnity by reason of change in occupation, or that the company will prorate the indemnities, that is, the company will pay only such portion of the indemnities as the premium would have purchased should the policyholder originally have been insured in the more hazardous occupation.

The nonprorating provision is one in which the company guarantees the insured that it will pay the amount specified in the policy to him regardless of any change in his occupation to one more hazardous, providing it is not a prohibited risk. In case the change is to an occupation classified as uninsurable the company may cancel the policy at any time by written notice delivered to the insured or mailed to his last address, as shown by the records of the company, together with cash or the company's check for the unearned portion of premiums actually paid by the insured, and such cancellation shall be without prejudice to any claim originating prior thereto.

In the event of a change to a less

hazardous occupation, which is governed by standard provision No. 12, the insured has the privilege of notifying the company, surrendering the policy, and having returned to him the unearned premium.

Childbearing. Most disability policies written on female risks exclude payments because of pregnancy, childbirth, miscarriage, and the effects thereof. Childbearing is hardly in the class of an accident or the scope of accidental means. Loss of time because of childbearing is a hazard of illness, but the nature of the condition permits preparation for the financial or other problems involved before the disability occurs. Childbearing is not an appropriate risk for disability insurance.

Claims. A claim is a demand on the company for payment of a loss covered by the policy. A preliminary notice of claim is the original written notice given by the insured notifying the company of an accident or illness for which a claim is contemplated. An intermediate proof is a form submitted to the insurance company by the insured at intervals during the period of disability when he wishes to take advantage of standard provision No. 10, which permits him to collect the accrued benefit after specified periods of disability as set forth in the policy. A final proof is the form completed by the claimant and containing a certification of disability by the attending physician and employer which is filed after the termination of the disability period making claim for the entire loss for which the company is liable or for the remaining portion of the loss if partial payments have been made on intermediate proof. Standard provisions Nos. 4, 5, 6, 7, 8, 9, and 10 have a bearing on the payment of claims.

Classes of policies. There are five important classes of accident and health policies: (1) commercial (quarterly, semiannually, annually); (2) monthly (monthly payment); (3) industrial (weekly payment); (4) limited; (5) group.

Classification by occupation. Occupations having approximately the same degree of accident hazard are classified in groups. The group in which a given occupation is placed determines the occupational charge that is included in the premium. An applicant who divides his time between two or more different occupations must be rated according to the occupation involving the greatest hazard. This rule must be strictly followed to protect the best interest of the insured by assuring the payment of claims on the basis of the indemnity stated in the policy.

See Accident classification manual.

Classification manual. *See* Accident classification manual.

Classification of losses. Most accident losses may be classified as:

(1) Loss of life.

(2) Loss of one or both hands or feet, or sight of one or both eyes.

(3) Loss of time, either total or partial.

(4) Monetary loss through hospital, medical and surgical expense.

Collective hazard. Members of business, fraternal, or other organizations or groups making tours, and whose travel will be on the same conveyance or vessel, make up what is generally called a *collective hazard.* Such risks may be insured upon special approval by the home office of most companies. Where the company has to reckon with a collective hazard, it is necessary to guard against very large aggregate or concentrated liability.

Combination accident and health policy. This is an accident and health policy combined in one con-

tract. It is often called a disability policy.

Combination life and disability insurance. *See* Disability provisions of life insurance.

Commercial accident and health insurance. The commercial accident and health policies are intended for the business and professional classes, that is, those occupations where there is little if any exposure to hazard and danger. Such preferred classes are office workers, merchants, commercial travelers, lawyers, teachers, doctors, dentists. These occupations are often referred to as "commercial" to distinguish them from the industrial or manual laborers. In such occupations, there is little industrial exposure to accidental injury. Likewise, the salary or remuneration of such classes permits a higher standard of living. Commercial accident and health policies are usually issued for large principal sums (death or specific loss indemnities) and weekly benefits (loss of time indemnity). Such policies are issued on the annual, semiannual, or quarterly premium payment plan. This plan is suitable for such classes of risks as are able to pay for the policy in advance; whereas the general class of laborers requires a different premium payment system. The greatest amount of accident and health insurance is issued on the commercial plan. *See* Accident insurance; Health insurance; Noncancelable accident and health policy.

Compulsory health insurance. Compulsory health insurance has been advocated in this country as a solution for the sickness problem of the industrial workers. Under such schemes as have been advocated a system of health insurance would be developed to include all wage earners with an income under a certain standard; to provide certain benefits (for loss of time due to sickness, for medical treatment) for the insured and his dependents in addition to a funeral benefit, in the event of death; and to require financial aid from the wage earners, the employers, and the state, or only from the wage earners and the employers. Under such a plan, the insurance might be carried in either a private company or a state fund. Compulsory health insurance has existed for many years in various European countries with the power of supervision in the hands of the government. *See* Health insurance.

Concurring disease. When the accident policy insures against injury caused solely by accidental means or due solely to such means and independently of other causes, it intends to eliminate any concurring disease that might have contributed to the injury. The courts, however, have not always taken this position, and cases have been called accidental when disease contributed to the injury. Certain types of disease, the proximate cause of which is difficult to decide, fall into this category: (1) brain hemorrhages; (2) heart ruptures; (3) diabetes; (4) nephritis; (5) cataracts of the eye; (6) cirrhosis of liver; and (7) epilepsy.

Conditions of performance. The operating conditions or the conditions governing the performance of accident and health policies are found in the standard provisions. These are contrasted with the benefit provisions of the policy. *See* Standard provisions.

Confining sickness. Disability resulting from disease by reason of which the insured is prevented from performing any of the duties pertaining to his occupation and is necessarily confined within his house is often referred to as house-confining sickness.

Consideration clause. The validity of a contract depends on a consideration. The consideration in an accident and health policy consists of: (1) agreement to pay premiums; and (2) acceptability of statements in the application. The consideration clause is usually found in the additional provisions clause and reads:

> This policy is issued in consideration of the premium charged therefor and of the statements made in the application, a copy of which is endorsed upon and is hereby made a part of this contract. The falsity of any statement in the application for this policy materially affecting either the acceptance of the risk or the hazard assumed hereunder, or made with actual intent to deceive shall bar all right to recovery under this policy. No provision of the charter or by-laws of the Company not included herein shall avoid the policy or be used in evidence in any legal proceeding hereunder.

Contingent beneficiary. A contingent beneficiary is one who has been named in the policy to succeed to the benefits in the event some unforeseen occurrence prevents the direct or primary beneficiary from receiving all or a part of such benefits. The contingent beneficiary may be designated by the insured or by the primary beneficiary, with the consent of the insured, before benefits accrue. After benefits accrue, a primary beneficiary may designate a contingent beneficiary only in the event that the insured has failed to do so. *See* Beneficiary.

Continuing disability. *See* Permanent partial disability in disability policy; Permanent total disability—accident insurance.

Convalescent disability indemnity. Some health insurance policies provide an indemnity for a period following house-confining illness or an illness that does not require house-confinement. In some cases, this indemnity is payable for the duration of the disability; in others, it is limited to a specified number of weeks. Treatment by a legally qualified physician is usually required in order to qualify for the benefit. For example, some policies specify that the coverage applies only while the insured is "under the continuous care and personal attendance of a legally qualified physician or surgeon at least once every seven days." *See* Nonconfining health policy; Partial disability; Health insurance.

Corporation benefit fund. Many large corporations (for example, steel and manufacturing corporations and railway companies) have formed funds for the payment of disability benefits to their employees. Contributions to these relief funds by employees may be voluntary. *See* Establishment fund.

Coupon accident insurance. *See* Newspaper accident policy; Ticket accident policy.

D

Death and dismemberment policy. A death and dismemberment policy provides only a lump sum payment for loss of life, hands, feet, sight, and so forth. It does not provide weekly indemnity for loss of income resulting from disability. It is sometimes called *life and limb policy.* Retired men and women who live entirely upon an investment income are restricted to this type of accident policy. *See* Accident insurance; Dismemberment, loss of sight, or death indemnity.

Death indemnity. The principal sum is paid under accident policies for death. The length of time for payment of the death benefit varies with different companies. Many companies provide that death must occur within from 30 to 90 days of the ac-

cidental injury unless, following the accidental injury, disability has been total and continuous, in which case the principal sum may be paid for death occurring within 200 weeks.

Declarations of insured. A *declaration of the insured* states, in substance, that the statements and answers given by the insured in the application are true and that no information material to the risk has been withheld. Such a statement by the insured may have important consequences: (1) The declarations become the basis of the contract; (2) In some cases, statements by the policyholder are held to be warranties; (3) The insured states that no fact material to the risk has been withheld or suppressed. A violation of the declaration may invalidate the insurance.

Deductible period accident and health insurance. *See* Waiting period accident and health insurance.

Default. The problem of default is covered by standard provision No. 3. There are three forms of this provision, the choice depending on whether the policy is an accident only, health only, or a disability policy. The provision in the accident policy reads:

> If default be made in the payment of the agreed premium for this policy, the subsequent acceptance of a premium by the Company or by any of its duly authorized agents shall reinstate the policy, but only to cover loss resulting from accidental injury thereafter sustained.

If sickness is covered, the policy is reinstated for sickness benefits beginning ten days after receipt of premium. There is nothing in this clause compelling a company to effect reinstatement after a lapse.

Direct beneficiary. The direct or primary beneficiary is the person designated by the insured to receive the principal sum of the policy in the event of accidental death. *See* Beneficiary; Contingent beneficiary.

Directly and independently. Some accident insurance policies contain a clause which reads: "against loss resulting *directly and independently* of all other causes, from bodily injuries effected during the term of this policy solely through external, violent, and accidental means," or words to that effect. The reason for the insertion of this particular clause is to eliminate claims that might arise from some pre-existing disease. Only when the bodily injury is the sole cause of the loss or the sole cause of a continuous sequence of events that bring about the loss is there an accident. For example, if a man accidentally fractures a rib which penetrates a lung and pneumonia results causing his death, the loss is considered to have resulted "directly and independently" of all other causes from bodily injury because of the fractured rib which set up a sequence of events resulting in death. Just what is a "pre-existing disease" is a matter which may be passed upon by a court: a narrow or broad interpretation of this clause can be made. *See* Accident insurance; Concurring disease.

Disability benefits. Most disability policies pay a weekly indemnity for total disability. Some policies also pay for a partial disability. The payments are in the form of an income for the period of disability or for a specified number of weeks, which varies in different policies.

Disability is inability to perform certain work, according to the coverage and requirements of the particular policy. Monthly or weekly indemnity is usually paid for disability, though some policies provide optional fixed indemnities for disability resulting from certain specified injuries. The insured is said to be dis-

abled when by reason of accident or sickness he is physically unable to work.

Disability policies usually specify that when blood poisoning or septicemia is the direct result of a bodily injury sustained through accidental means, disability payments will be made under the accident sections; otherwise, such disability would be considered as a claim under the health section. Some accident policies issued to physicians, surgeons, dentists, undertakers, and embalmers may provide that disability from septic infection, which is the result of external inoculation through accidental contact with septic matter, will be deemed an accident. Most disability policies have a provision that a claim for hernia shall be recognized under the health section of the policy and shall not under any circumstances be recognized as an accidental injury.

See Total disability in disability policy; Permanent total disability—accident insurance; Permanent total disability—health insurance; Partial disability; Permanent partial disability in disability policy.

Disability policy. When accident insurance and health insurance are issued in one contract, such a combination is given the name of a *disability policy*.

Many varieties of combinations of policies including the injury coverage and the illness protection are on the market. It is impossible to give a brief classification of all the types of disability policies in use today. The accident part of the policy provides four basic benefits: (1) loss of time payments; (2) reimbursement for medical and hospital costs; (3) indemnity for loss of limbs or sight; and (4) payment for death. The fundamental benefits under the health insurance part of the policy are: (1) payment for loss of time because of illness; and (2) reimbursement for medical and hospital costs.

Disability provisions of life insurance policies. Life insurance policies provide two forms of disability benefits: (1) waiver of premium; and (2) payment of an income. No benefits are payable unless disability is total and permanent. *Total disability* is generally defined as "inability to engage in any occupation for remuneration or profit."

Under life insurance practices certain specified forms of disablement are presumed to be total, such as loss of sight, entire loss of both hands or both feet. Also, certain risks are excluded from the disability clause, such as self-inflicted injuries, military or naval service, and violation of law. In the practice of life insurance a waiting period of 90 days to six months is quite common, proof of the continuance of disability must be given, and the benefit usually terminates at age 55 or 60.

Some life insurance companies also pay a double indemnity in case of accidental death. For a more extended discussion of this topic see Section One, Life Insurance and Annuities.

Disease indemnity. *See* Health insurance.

Dismemberment, loss of sight, or death indemnity. Accident insurance policies usually contain a schedule of benefits allowable for certain specific losses, provided the loss occurs within the time limit, which is usually 90 days from the date the injury was sustained, unless the loss follows a continuous period of total disability and the loss occurs within 200 weeks. For purposes of accident insurance, *dismemberment* is used to mean the loss of some part or parts of the body through accident. Some companies are eliminating some of these time limitations in the accident policies. Only one of these benefits for specific

loss is usually payable. The following is an example of such a schedule for injuries causing permanent disability, although it is not used by all companies.

Life Both hands Both feet Sight of both eyes One hand and one foot One hand and sight of one eye	The principal sum
One hand One foot	One-half the principal sum
Sight of one eye	One-third the principal sum

Occasionally, a benefit is specified for the loss of fingers, for example, for "loss of thumb and index finger of either hand by actual separation at or above metacarpo-phalangeal joints," one sixth of the principal sum is allowed, while for such loss of two or more fingers, one seventh of the principal sum is provided. *Loss* is usually defined: (1) with respect to the hands, dismemberment by severance of the entire hand through or above the wrist (radiocarpal) joints; (2) with regard to the foot, dismemberment by severance of the entire foot through or above the ankle (tibiotarsal) joint; (3) in connection with the eye, entire and irrecoverable loss of the sight.

In some policies, provisions are made for the payment of an indemnity if the assured suffers, as the result of any accident, the entire and irrecoverable loss of speech or hearing, while others go so far as to include indemnity for a permanently stiff elbow or knee joint resulting from an accident.

A death and dismemberment policy usually provides benefits for the accidental loss of life, limbs, eyesight or any combination thereof. The policy may also include benefits for surgical operations made necessary by reason of an accidental injury. A death and dismemberment policy does not include benefits in the form of indemnities for loss of income resulting from disability due to an accidental bodily injury. This form of policy may be issued to any type of risk. However, it is most generally issued to retired men and women who do not have an earned income but live entirely upon an investment income. Such persons are not eligible for a policy that includes a weekly or monthly indemnity. *See* Accident insurance.

Doctors' fees benefit. *See* Medical attendance indemnity.

Double indemnity. Double indemnity is the payment of double the amount of the "principal sum" or "capital sum" and in some cases the monthly indemnity when the insured has been accidentally injured by exceptional causes, such as railroad or boat travel, passenger elevators, burning buildings, cyclones, and so forth.

The circumstances under which double indemnity is usually paid are:

When the injuries are sustained as the result of an accident which has occured:

(1) While a passenger on a common carrier other than airplane.

(2) While on a passenger elevator (except a mine elevator).

(3) Caused by the explosion of a steam boiler.

(4) Caused by hurricane, cyclone or tornado.

(5) Caused by lightning.

(6) Caused by collapse of the outer walls or the burning of a building if the insured is within the building at the time of the collapse or the commencement of the fire.

Drinking. Drinking more liquor than a person can take, if death results, is not considered accidental means. Drinking poison by mistake or some other medicine given by the mistake of a doctor is within the meaning of accidental means.

Drugs. Death produced by the taking of an overdose of certain drugs may or may not be accidental. If the drugs are taken by mistake, the definition of an accident seems to apply. When they are taken intentionally but in an overdose, the matter depends on court construction of the policy in some cases. There are cases in which the following have been held to be an accident: (1) an overdose of luminal; (2) chloroform taken for insomnia; (3) barbital used to excess; and (4) an overdose of veronal.

Due and unpaid premiums. *See* Unpaid premiums.

E

Earned income. Disability insurance that pays a weekly or monthly income is generally limited to people who have an earned income. Earned income is a monetary remuneration received by a person in payment for his time or services. Earned income includes profits derived from the operation of a business or enterprise in which the recipient of the profits is directly engaged. It does not include income from investments whether it be interest on bonds, dividends on stock, or rentals from real property or any type of income that is not produced as a direct result of the recipient's activities.

Earning ability. The primary function of disability insurance is to replace earning ability that is lost because of illness or injury. A supplementary purpose of disability insurance is to pay not only for the loss of income but also for the additional expenses incurred because of disability.

Effects of food. There seems to be a divided opinion in the courts as to whether food poisoning or ptomaine poisoning is due to an accident. Clearly there is no external, violent means involved. Nevertheless, some courts have held ptomaine poisoning to be an accident. Policies may include or exclude this item.

Elective indemnities—accident insurance. The typical accident insurance policy usually contains a provision giving the policyholder the option of choosing in lieu of other disability benefits, a quick cash settlement for a specified injury, such as a fracture, dislocation, or loss of fingers or toes. The amounts of disability resulting from such injuries vary considerably among the different occupations. The scheduled benefits have been compiled after the average duration of disability caused by such injuries has been determined. A schedule of these elective indemnities is included in the policy, but settlement under this elective indemnity provision is limited to one payment as a result of any one accident.

If the policyholder wishes to elect this lump sum payment, he must make such a decision within 20 or 30 days after the occurrence of the accident. It is very often true that settlements are made under this provision for injuries that would not entirely disable or cause the insured to lose much business time. For example, the insured might fracture a forearm, rib, toe, finger, and still not be totally disabled for more than a day or so at the most. In other words, only a small settlement, if any, in such a case could be received from the total and partial disability benefit sections of the policy. On the other hand, under the schedule of elective indemnities (if the policy provides $100 per week as the total disability payment), the assured would be entitled to approximately $600 for the fracture of a forearm, or $200 for the fracture of a rib, toe or finger.

The schedules of elective indemnities which are specified in the vari-

ous accident and health policies are not all exactly the same with respect to the particular injuries or the amounts of the indemnities, but the following schedule is a representative illustration:

The insured if he so elects in writing within twenty days from date of accident, may take in lieu of the weekly indemnity hereinbefore provided for total and partial disability, indemnity in one sum according to the Schedule of Elective Indemnities endorsed hereon if the inquiry is one set forth in said schedule, but not more than one elective indemnity shall be paid for injuries resulting from one accident.

The amounts stated in the following schedule are payable under this policy if the company's liability for single weekly indemnity for total disability is $25 per week, proportionate amounts being payable if said liability is for a longer or smaller amount.

DISMEMBERMENT OF—

Fingers, one or more entire	$160
Toes, one or more entire	200

COMPLETE DISLOCATION OF—

Shoulder	75
Elbow	100
Wrist	120
Hip	300
Knee	160
Foot, two or more bones not toes	160
Ankle	160
Toes, two or more	60
Fingers, two or more	60
One finger or toe	25

COMPLETE FRACTURE OF—

Skull, both tables	320
Lower jaw	80
Collar bone	160
Pelvis	240
Thigh shaft	300
Leg, tibia or fibula or both	200
Knee cap	200
Upper arm, humerus	300
Forearm, one or both bones	160
Ribs, two or more	100
Foot, two or more bones not toes	120
Hand, two or more bones not fingers	120
Toes, two or more	100
Fingers, two or more	100
One rib, finger or toe	50

Eligible employee. As used in group accident and health insurance, *eligible employees* are all of any class or classes of employees as determined by conditions pertaining to the employment. Generally men retired from active work, or in semiretirement, are not eligible for this coverage.

Elimination period. *See* Waiting period.

Emergency benefit. *See* Identification benefit.

Employees' benefit association. *See* Establishment fund.

Employers' welfare insurance. *See* Establishment fund.

Entering or leaving moving conveyance. Accident insurance policies of a restricted nature may specify that the insurer is not liable for injuries sustained while entering or leaving or standing on a platform of a moving conveyance. In order to make the exception operative, there must be some causal connection between the actions of the insured and the injury. It does not make the company liable under such an exclusion if the insured was in the custom of boarding moving trains, or if he slipped when trying to jump on a moving train, or if he had got off the train and was injured in attempting to re-enter it. Under the policy excluding injuries from standing on a platform, the passing across a platform from one car to another of the same train is not within this exception. In some policies this exclusion may specify that injuries are not covered if sustained while the insured is in a portion of the train not intended for passengers. Such exceptions are not applicable to railway employees, and few poli-

cies are issued to such persons with this limitation.

Entirety of contract. Standard provision No. 1 tells what the policy contract is. This provision says that the policy includes the endorsements and attached papers, if any, and contains the entire contract of insurance. Some policies contain this statement:

> If the law of the state in which the Insured resides at the time this policy is issued requires that prior to its issue a statement of the premium rates and classification of risks pertaining to it shall be filed with the state official having supervision of insurance in such state, then the premium rates and classification of risks mentioned in this policy shall mean only such as have been last filed by the Company in accordance with such law, but if such filing is not required by such law then they shall mean the Company's premium rates and classification of risks last made effective by it in such state prior to the occurrence of the loss for which the Company is liable.

Establishment fund. Establishment funds include various systems for the benefit of sick employees of an industrial organization. These funds are intended for the benefit of the employee members of a single firm or corporation. The contribution to and control of the fund may be solely in the hands of the employee members, solely in the hands of the employers, or controlled by both. The chief benefit provided by establishment funds, or voluntary relief associations as they were sometimes called, is that of a cash benefit for loss of time resulting from sickness. Such benefits for loss of time vary from approximately $5 weekly to $20. In some cases, the benefit is graded roughly according to the wage, but in many instances it is a uniform sum per day or week. The payment is usually limited to not more than 15 weeks, but in some cases it is payable for only 2 weeks. In addition to this sick benefit, many establishment funds provide for the payment of a death benefit which usually amounts to little more than a funeral benefit, varying generally from $50 to $300. Occasionally a death benefit of $2,000 is provided. Such funds are rarely found except in large establishments, corporations, or industrial plants. For example, they are in existence in iron and steel plants, large manufacturing plants, the meat-packing industry, large department stores, railroads, telephone, and other public utility companies. There are a few establishment funds which provide medical, nursing, and hospital benefits. First aid surgical treatment is sometimes a part of the welfare system in case of emergencies. Some corporation funds provide for medical supplies and treatment in the home, and some employ a visiting nurse. Obviously the employee is covered by such insurance only while he remains in the employment of the firm or corporation. *See* Health insurance; Group insurance.

Examination. A company has the right to examine a person insured under health and accident insurance during the pendency of a claim. This right is usually reserved in the policy by the use of standard provision No. 8, which says:

> The Company shall have the right and opportunity to examine the person of the Insured when and so often as it may reasonably require during the pendency of claim hereunder, and also the right and opportunity to make an autopsy in case of death where it is not forbidden by law.

Excepted causes of accidental injury or death. Accident insurance policies usually specify that the insurance company is not liable for injury or death of the insured resulting from

designated causes or from certain circumstances. Although accident policies vary to a considerable extent in this point, the policy may except injuries caused by: voluntary exposure to unnecessary danger, walking on railway track or bridge, entering or leaving or standing on platform of a moving conveyance, inhaling gas, poison, disease or bodily infirmity, violation of law, violation of rules of a corporation, fighting, intentional injuries, voluntary overexertion, intoxication, handling explosives, aeronautics, and also injuries not having external or visible signs of injury. These exceptions do not relieve the insurance company from liability if the act was within the scope of the insured's occupation or incident thereto. For example, it has been held that such an exception as injuries suffered while entering or leaving a moving conveyance is not applicable to a railway conductor, whose duties require such acts. Policies issued to such persons usually cover this risk, however, for a higher premium.

In order for the insurance company to escape liability under policies with these exceptions, the excepted risk must be the direct cause of the injury or death; the proximate and not the remote cause. In this connection, R. W. Cooley, in *Briefs on the Law of Insurance* (Vol. VI, pp. 5299–5300, 5301), states:

> If the excepted risk from which death results is the effect of the accident, so as to be a mere link in the chain of causation between the accident and the death, the death must be attributed, not to such excepted risk, but to the accident alone.
>
> If diabetes was an effect of insured's accidental injury, a mere link in the chain between the accident and its effect, the condition of insured would be attributed to the accidental injury, and not the disease...........
>
> If, however, the effect of the accident is merely to aggravate a pre-existing condition, such a disease, which is the cause of death, the excepted risk, and not the accident, must be regarded as the proximate cause.
>
> The rule stated above must not be given too broad a scope. Where there is no active disease, but merely a frail general condition, or merely a tendency to disease, which is made operative by accident, so that death results, there may be recovery on an accident policy insuring against death through accidental means only, though the accident would not have had such effect on a normal person.

A policy excluding injuries or death while "engaged in aviation" or participating in aeronautics does not cover passengers in airplanes. Accident policies may stipulate that they do not cover death or injury from medical or surgical treatment. This exception is usually not applicable in case of a bodily injury necessitating medical or surgical treatment. Also accident policies may specify that injuries are not covered which are received while the insured was violating the rules of a corporation. It is generally held, however, that in order to relieve the insurer from liability such rules must be those which the corporation has used some reasonable efforts to enforce and the rules must have been known by the insured. Examples of such an accident are to be found in crossing railway tracks in violation of rule of the company, or standing upon a platform of a moving train.

Life insurance policies, since a company has the right to select the risks it is to assume, generally stipulate that certain risks are excluded, that is, they often provide that recovery cannot be made if death occurs under certain circumstances or is the result of designated causes. The life policy may specify that it does not cover: (1) death within a certain time after

the policy takes effect; (2) death while living in prohibited localities; (3) death caused by war or rebellion carried on by a government; (4) death from epidemics, or death from certain diseases—venereal disease, or smallpox when never successfully vaccinated; and in policies on women—diseases peculiar to women, and pregnancy, abortion, and so forth. *See* Occupation of insured; Military or naval service; Intemperance; Violation of law; and, in Section One, Execution at the hands of justice; Death caused by beneficiary or assignee; Suicide.

Excepted or excluded period. *See* Probationary period—health insurance.

Excess insurance. *See* Other insurance in same company.

Exclusions. The term *exclusions* designates the accidental occurrences or type of ailments that are set forth in the policy as being specifically excluded from coverage thereunder. Some of the principal forms of exclusions are:

(1) Hernia (excluded as an accident).

(2) Suicide (sane or insane) or any attempt thereat.

(3) By war or any act of war or suffered by the insured while in the armed services of any country engaged in war.

(4) Resulting from any injury, fatal or non-fatal, sustained by the insured while in or on any aircraft or other device for air travel, while falling or descending therefrom or while operating or handling aircraft.

(5) While riding in a submarine.

(6) While committing a felony.

(7) While under the influence of intoxicants or narcotics.

(8) Disability caused by or complicated by venereal disease.

(9) Pregnancy or childbirth.

(10) Injuries or illness sustained or suffered outside the continental limits of the United States or Canada.

Expense reimbursement. This feature found in disability policies agrees to pay the actual expense of medical or surgical treatment, hospital confinement, and employment of a trained nurse. Usually the maximum is limited to $500 or $1,000 and there may be daily limits. Expense reimbursement is usually in addition to any other indemnity to which the insured may be entitled under the policy.

Exposure to unnecessary danger. *See* Voluntary exposure to obvious risk or unnecessary danger.

External and violent means of injury. In addition to the qualification of accidental means, accident policies may specify that the injury must be sustained by reason of external and violent means. This limitation was devised to protect the insurer from hidden or secret diseases which might occur from natural and internal causes. An injury sustained by reason of a fall has been considered to be a violent and external means of injury even though the fall was caused by some unexpected and temporary physical condition (*Interstate Casualty Co. v. Bird,* 18 Ohio Civ. Ct. R. 488). Other injuries in addition to falls and blows have been held to be violent and external means of injury or death, such as death from blood poisoning resulting solely from an injury, a fishbone lodging in the internal organs, or contact with poison ivy. The word *external* is applicable where the cause of death or injury is external to the insured even though its action is internal, such as fright from an external cause, drowning, asphyxiation by gas in the atmosphere, swallowing hard substances, and so forth. Also death by suicide has been held to be external and violent within the policy meaning (*Blackstone v. Standard Life,* 42 N. W. 156, 74 Mich. 592).

Under a policy containing the

phrase "external, violent or accidental means" it was held that the word *or* had a different meaning from *and*, so that the insurance company was held liable in a case in which the insured was shot by another whether or not the shooting was accidental. Such decisions indicate the necessity of carefully analyzing the coverage provided by a policy of accident insurance. *See* Accidental means.

External and visible signs of injury. An accident policy may provide that there is no coverage for an injury of which there is no external or visible mark on the body. Such a limitation has been used to protect the insurer from faked claims and very minor injuries. It has been asserted in several cases, however, that this provision is not applicable to any injury causing death and that the lifeless body is a sign of injury within the policy meaning. Under a limited policy of this nature, it has been held that the signs of injury are not restricted to broken limbs, fractures, contusions, cuts, bruises, but include any apparent signs of internal strains, such as: discoloration of the injured part, the pallor of the injured person, mental derangement, an internal condition evidenced by autopsy, a condition shown by physical examination of the muscles, finding gas or water in the lungs, signs of poison ivy appearing on the skin.

Extraction of tooth. A division exists in court decisions on whether or not death resulting from the extraction of a tooth is accidental. In some jurisdictions it is held not to be accidental though unexpected. Death from heart failure following a tooth extraction has been held accidental. Infection following a tooth extraction has been held to be external, violent, and accidental means.

Extra premium. When the risk covered is unusual or when the conditions surrounding the risk are below normal, the risk is termed an *extra-hazardous* one. In such a case an extra premium charge may be required or the indemnity or benefits under the policy may be decreased. An extra premium is also charged for extensions of coverage by riders and indorsements.

F

Family expense policy. Family expense accident and/or health insurance is that form of voluntary accident and/or health insurance covering members of any one family, including only husband, wife, and dependents, written under one policy issued to the head of such family. Benefits for the spouse and dependent children under a family expense accident and/or health policy do not include indemnities for loss of time from any cause. Any insurance company authorized to write accident and/or health insurance shall have the power to issue family expense accident and/or health insurance policies. No policy of family expense accident and/or health insurance may be issued or delivered unless a copy of the form thereof shall have been filed with the insurance department and approved by it.

The family expense accident and/or health insurance policy contains the following provisions:

(a) A provision that the policy and the application of the head of the family shall constitute the entire contract between the parties, and that all statements made by the head of the family shall, in the absence of fraud, be deemed representations and not warranties, and that no statement shall be used in defense of a claim under the policy unless it is contained in a written application.

(b) A provision that to the family group originally insured shall be added,

from time to time, any new members of the family eligible for insurance in such family group.

(c) A provision that members of the family group shall have free choice of doctor practicing legally in this state, and that the physician-patient relationship shall be maintained.

(d) In any health and/or accident group policy providing for hospital, medical, surgical and/or sick-care benefits, all benefits accruing under such policy for or on account of any member of a family included therein shall be payable to the insured, if living, or to such other person as the policy may provide for in the case of the insured's death, but it may be provided in the policy, with the consent of the insured, that the said benefits in any case may be paid directly to any corporation furnishing hospital, and to any person legally furnishing medical, surgical, or sick-care services to the insured or to the members of his or her family covered in the policy, within such limits as the policy may provide, but without other preferences as to such creditors: Provided, That in the case of family insurance, 1 of the parents, or the person who stands in the place of parent, shall be the contracting party for such insurance, and may receive, receipt and give acquittance for all benefits accruing to any member of such family so insured.

Family history. The family history as to insanity, nervous diseases, and tuberculosis is important in the selection of risks for disability insurance. Where there is evidence of a family record of apoplexy, nephritis, diabetes, insanity, alcoholism, epilepsy, and tuberculosis, the risk needs to be carefully underwritten. *See* Family history in Section One, Life Insurance and Annuities.

Female risks. Most companies write smaller amounts of indemnity on women than on men. Moreover, the age limits of women are usually lower than men. Weekly indemnity insurance is not written on married women or on women not gainfully employed. Medical reimbursement insurance is written on housewives. Death and dismemberment policies are written on female risks. Childbearing is a hazard which companies do not assume on female risks. *See* Childbearing.

Fighting. Accident insurance policies, in addition to an exception regarding violation of law may specify that the injuries or death resulting from the insured's fighting are not covered. It was held in an Illinois case (*United States Mut. Acc. Ass'n v. Millard,* 43 Illinois App. 148) that the insured could not recover for injuries received in fighting though he was not the aggressor; the general rule, however, is the opposite (*Coles v. New York Casualty Co.,* 83 N. Y. Supp. 1063, 87 App. Div. 41; *Robinson v. United States Mut. Acc. Ass'n,* (C. C.) 68 Fed. 825). *See* Selection of risk; Voluntary exposure to obvious risk or unnecessary danger.

Final time limit for filing proof of loss. Standard provision No. 7 covers this subject. This provision sets a final time limit for filing proof of loss, distinct from the time allowed for filing the original notice. The provision reads:

> Affirmative proof of loss must be furnished to the Company at its said office in case of claim for loss of time from disability within ninety days after the termination of the period for which the Company is liable, and in case of claim for any other loss, within ninety days after the date of such loss.

The burden is placed on the insured to prove that he is eligible for benefits.

Financial standing of applicant. In many forms of insurance, the financial standing of the applicant is important in determining the acceptability of the risk. In accident

insurance the weekly income of the applicant is important in ascertaining how much weekly indemnity may be provided in the policy. In some court decisions the financial standing of the applicant is considered a material fact, and in some cases it has been asserted that intentionally false statements made by applicants regarding their income and financial standing would void the policy.

Fixed indemnity accident insurance. *See* Dismemberment, loss of sight, or death indemnity.

Food poisoning. *See* Effects of food.

Foreign to occupation (FO). In personal accident insurance underwriting, accidents are classified as *foreign to occupation* when they occur in recreation or about the home. Standard provision No. 1 contains the expression "except ordinary duties about his residence or while engaged in recreation." These activities are not affected by the change of occupation.

Foreign travel. Generally, life policies are not restricted as to territorial limits. In the case of accident insurance some companies will not insure applicants who intend to reside permanently outside of the United States. Persons who want accident insurance and who intend to make a journey outside of the United States for business or pleasure for a period not to exceed six months, will be considered for accident insurance upon the submission of the following information: (1) date of departure; (2) countries to be visited; (3) whether for business or pleasure; (4) details of visits to interiors; and (5) date of return. As a general rule, the coverage under health insurance policies is limited to the United States and Canada upon the North American Continent lying south of the 55th degree of north latitude and Europe. Persons who wish to make short journeys out of the United States will be considered for health insurance upon giving answers to the matters mentioned in connection with foreign accident insurance.

Fraternal accident and health insurance. The term *sick benefit* is usually used to include both disability resulting from accident and from sickness. In addition to the benefits for loss of time, fraternal orders often provide benefits for specific losses (loss of limb, sight, and hearing) and benefits for total and permanent disability or old age benefits. The fraternal orders do not cover all kinds of sickness, and for the most part exclusion is made of certain diseases, such as those not common to both sexes, those due to intemperance, those resulting from unnecessary exposure. Some fraternal orders pay reduced benefits for certain diseases, such as rheumatism, neuralgia, lumbago, varicose veins, hernia, nervous prostration, gout, and so forth. Only a few of the fraternal societies providing such insurance make provisions for medical treatment of members except on the basis of charity. It is impossible to give an adequate summary of fraternal sickness and accident insurance because of the great variety of systems and coverages and the lack of standardization. There is often lack of any scientific basis of the management of the benefit fund. *See,* in Section One, Fraternal insurance.

Fraud, mistake, or negligence of agent. Generally, the company cannot escape liability if one of its agents fraudulently misleads the insured, although a contrary rule seems to have been used in *Seybert v. Aetna Life Ins. Co.,* 4 Luz. Leg. Reg. (Pa.) 219. However, evidence of collusion between an agent and the insured to

defraud the company will void the policy for those connected with the conspiracy.

The usual rule is that the insurer cannot escape liability because its agent is careless in writing the answers correctly made by the applicant. The same is true, as a rule, if the agent or medical examiner makes mistakes because he misunderstands or misinterprets the statements made by the applicant. However, the good faith of the applicant is considered very essential and he must have no knowledge of such errors. A few courts have ruled that the applicant should use diligence to see that the agent or medical examiner correctly writes the answers. The company is not relieved from liability if the agent fills out the application without asking the insured the required questions or without showing him the application. In regard to accident insurance, in some jurisdictions, if the agent did not correctly classify the applicant's occupation after having the entire facts, the company has been held liable; although in other jurisdictions the contrary rule has been asserted in some cases. The policy may state that the insured is responsible for false answers in the application made by him, or his proper agent, and also that anyone writing insurance is held to be the agent of the insured at such time. Generally, such promises are held to be ineffectual in making the policyholder responsible for fraud or mistakes of the agent writing the insurance, who is usually held to be the agent of the insurer. In this connection C. W. Cooley makes these conclusions (*Briefs on the Law of Insurance,* Vol. 5, p. 4164):

> From an examination of the cases the following propositions may be regarded as established by weight of authority: Where the insured, in good faith, makes truthful answers to the questions contained in the application, but his answers, owing to the fraud, mistake, or negligence of the agent filling out the application, are incorrectly transcribed, the company is estopped to assert their falsity as a defense to the policy. The acts of the agent, whether he is a general agent with power to issue policies, a soliciting agent, or merely medical examiner for the company, are in this respect the acts of the company, and he cannot be regarded as the agent of the insured, though it is so stipulated in the application or policy.

Freezing indemnity. Some accident insurance policies state that "freezing suffered through accidental means shall be deemed a bodily injury within the meaning of this policy."

In the absence of specific coverage by the policy it is doubtful that freezing comes within the scope of an accident or by accidental means unless accompanied in some unexpected or fortuitous conditions associated with cold weather.

Full medical indemnity. Some accident policies provide that:

> If such injuries shall require within twenty-six weeks from the date of accident, medical or surgical treatment, hospital confinement or the employment of a trained nurse, the Company will pay, in addition to any other indemnity to which the Insured may be entitled, the actual expenses of such treatment, hospital charges and nurses' fees, up to an amount not exceeding the limit hereinbefore specified.

See Expense reimbursement; Medical expense.

G

Geographical limitations. Most disability policies contain geographical limitations to the continental limits of the United States, Canada, and Europe, although some policies con-

tain other geographical limitations, some covering more territory, and others less. *See* Foreign travel.

Good health. *See,* in Section One, Health of insured.

Grace period. This practice is not as common in disability insurance as in life insurance. Some companies grant grace periods, varying from five to 30 days, for the payment of premiums following the first payment. The grace period in industrial policies is generally short, usually not over three to ten days.

Group accidental death and dismemberment insurance. Group insurance for death or dismemberment by accidental means usually is sold only in connection with group life insurance or with group accident and health insurance, and only to employees engaged in industries where there is no considerable catastrophe hazard. This form of protection is issued to groups of insured employees of 50 or more. This form of protection provides indemnity in the event of loss occurring through violent, external, and accidental means within 90 days from date of accident. Benefits are payable in addition to group life, group accident and health, or workmen's compensation.

Generally no benefits are payable for losses of the following type: (1) suicide or attempted self-destruction; (2) intentionally self-inflicted injury; (3) riot, insurrection, and war risks; (4) committing an assault or felony; (5) aircraft except as fare-paying passenger on regular route; (6) disease or mental infirmity; (7) medical or surgical treatments; (8) ptomaines or bacterial infection; (9) poisoning; (10) asphyxiation; and (11) employment injuries. The above are the usual exceptions to group accidental death and dismemberment coverage. This insurance terminates for an individual employee: (1) when not eligible by classification; (2) when basic policy ends; (3) if employment ceases; and (4) on the date of ending of the rider.

Group accident and health insurance. Group health insurance is sold to employers usually of not less than 50 persons to provide sick benefits to their employees. The laws of Maryland define group accident and health insurance as follows:

> Group Accident and Health Insurance is hereby declared to be that form of accident and health insurance covering not less than twenty-five employes or members, and, in addition, may include the employes' or members' dependents, written under a master policy issued to any governmental corporation, unit, agency or department thereof, or to any corporation, copartnership, individual employer, or to any association, or organization of employes of one employer, its affiliates or subsidiaries, or to the members of any labor union, or to any organization or association of Federal or State employes, or school teachers, or school employes or nurses, where officers, members, employes, or classes or departments thereof, may be insured for their individual benefit.

The benefit usually depends upon the weekly wage of the employee and usually does not exceed 66⅔ per cent of this wage. In many cases, the employer may pay the entire cost; again, the employees may pay the whole cost; or both parties may jointly bear the cost.

Group health insurance is usually issued in connection with group accident insurance and is often called *group disability insurance* when the two policies are combined. Group accident insurance is intended to provide a supplementary protection to workmen's compensation insurance giving protection to employees for accidental injuries suffered outside of employment or for those not covered

under the compensation act. Usually, there is no cancellation clause in the group accident and health policy, and no standard provisions.

Group accident and health insurance, since it is issued on the wholesale plan, does not cost as much as the individual accident and health insurance policy.

Group insurance is based upon the theory that, if insurance is made available to a sufficiently large number of individuals on a group basis, the element of individual selection against the insurer is reduced to a minimum, the moral hazard is reduced, and the opportunity for fraud and speculation is virtually eliminated. For these reasons, together with lower operating expenses, insurance companies have been able to furnish group insurance at a remarkably low cost.

There are many advantages to group disability insurance, in addition to the lower cost; and it is, in many instances, very valuable to an employer in creating good will among the employees. By the payment of benefits for loss of time due to accidents and sickness, the group policy is most valuable to the wage earners.

If the group policy is issued to provide a benefit based upon a percentage of the employees' earnings, the basis of the premium computation is the payroll. On the other hand, if the policy is issued for specific benefits, the basis of the premium is the number of employees and the sum of the insurance.

Many forms of accident or health insurance may be written as group insurance. The most common forms are: (1) group accidental death and dismemberment insurance; (2) group accident and sickness insurance; (3) group hospital expense; and (4) group surgical expense insurance.

Group accident and sickness insurance. Group accident and health insurance provides weekly benefits for accidents occurring outside the scope of employment and for sickness for which he is not entitled to benefits under a workmen's compensation or occupational disease law. It may be written as a separate contract, or in combination with other forms of group coverage.

The basic coverage under this form of insurance is a weekly benefit payable for the disability caused by the nonoccupational injury or illness. Weekly benefits are limited to a percentage of the employee's base earnings and are subject to a maximum period of payment depending on the plan selected. Plans may be arranged for different amounts of weekly benefits, for various waiting periods, and for varying maximum weekly payment periods, such as 13, 26, or 52 weeks. Weekly benefits for pregnancy are payable on female risks. Termination of this coverage arises: (1) at end of employment; (2) when employee is pensioned or retired; (3) if employee is transferred to an ineligible class; (4) at the end of maximum number of weeks of payments; and (5) if master policy is terminated.

There are four important factors in determining the premium rate for this type of insurance:

(a) The maximum number of weeks of indemnity desired.

(b) The waiting period.

(c) The health conditions and industrial hazards of the group.

(d) The percentage of indemnity on females and for non-caucasians.

Group hospital expense. This is a plan of protection written on a group basis whereby all or a percentage of the employees of a common employer are insured for specified amounts of

expense incurred by reason of hospitalization as the result of a nonoccupational accident or illness. Under certain conditions the dependents of the insured employees may also be included in a plan of group hospital expense insurance. However, because of the underwriting problems involved in the writing of such coverage, full facts concerning the particular case must be submitted to the home office for individual consideration.

The essential coverage granted by this form of insurance is a daily hospital expense benefit. This benefit becomes payable to the insured if: (1) the hospital confinement is caused by a nonoccupation disability; and (2) the legally qualified physician or surgeon recommends the hospital confinement. This insurance is extended to cover hospital confinement resulting from pregnancy for female risks. The benefits of this protection are also extended to dependents of the insured and provide two coverages: (1) a daily hospital confinement benefit; and (2) an additional reimbursement for special charges. This insurance terminates if an employee: (1) fails to pay his share of the premiums; (2) is changed to an ineligible classification; (3) ends his employment; (4) becomes pensioned or retired.

Group surgical expense insurance. This plan provides that if while insured, the employee undergoes any of the surgical operations specified in the schedule of surgical operations because of: (a) any accident occurring while he is not working for wage or profit; or (b) any sickness for which he is not entitled to benefits under a workmen's compensation or occupational disease law, and the operation is recommended and approved in advance and performed by a physician or surgeon legally licensed to practice medicine, the insured employee will be reimbursed for the actual surgical fees charged him for the operation, subject to a specified maximum, depending upon the type of operation. Under certain conditions the dependents of insured employees may also be included in a plan of group surgical operation insurance. However, because of the underwriting problems involved in the writing of such coverage, full facts concerning the particular case must be submitted to the home office for individual consideration.

Guaranteed renewable policy. A noncancelable *guaranteed renewable* policy may be terminated only by the failure of the insured to pay the premium as required by the policy provisions, or by attaining the limiting age specified in the policy. *See* Aggregate indemnity.

H

Hair plucking. Hair plucking and pimple pricking sometimes result in conditions of infection that are thought to be accidental under certain circumstances. Infection introduced by hair plucking can hardly be the result of an accident although a court might rule to the contrary if a policy is not carefully worded.

Health certificate. This is a statement that the company requires the insured to complete and sign in which he sets forth his exact physical condition at the time that application is made for reinstatement of a lapsed policy. In this statement the policyholder assures the company that his health is not impaired by accident or sickness.

Health insurance. *Health insurance* may be defined as protection against loss arising from disability as a result of sickness or disease which prevents the policyholder from engaging

in his regular occupation. Health insurance may be issued in a separate policy (usually, however, it may not be issued, unless an accident policy is also purchased). It is often issued in the form of a disability policy providing both health and accident insurance. Moreover, health insurance may be obtained in connection with life insurance, or in the form of group disability insurance. In addition to the various forms of health insurance, there are a great variety of health insurance carriers from which these diversified types of coverage may be secured, such as fraternal order funds, trade union benefit funds, establishment funds, or mutual or stock life or casualty insurance companies.

As previously mentioned, health insurance may be issued in a group contract or in an individual policy. The individual policies may be either of the industrial type (issued for comparatively limited coverage and small amounts with the premiums payable weekly, semimonthly, or monthly) or of the commercial type (issued on the basis of quarterly, semiannual, or annual payment of premiums).

Health insurance is usually issued with a provision that the company may cancel the contract by written notice to the insured and by payment of the unearned part of the premium paid by the policyholder. Under such policies, there is no obligation binding upon the company to renew the insurance at the end of the policy year. This is a vital point to consider in regard to health insurance, for the criticism has been advanced that, in case the policyholder becomes disabled or becomes impaired by some disease, the company has the right to cancel the insurance just when it is most necessary to the insured. Most health insurance policies are of this nature; a few, however, are noncancelable. The noncancelable policy is usually issued only after a very strict medical examination, and, obviously, it requires a much greater premium payment. This form of health insurance policy is usually subject to a waiting period. A few health insurance policies are issued covering disability resulting only from a specified list of diseases.

The usual health insurance policy does not cover loss from death, for this is the risk under a life insurance policy. Many policies do not cover: (1) disability resulting from any disease due to injury by violence; (2) sickness existing or contracted prior to the issue of the policy, nor loss caused by any sickness or disease unless disability resulting therefrom begins while the policy is in force; (3) any disability for which the insured is not necessarily and regularly attended by a legally qualified physician; or (4) sickness contracted while the insured is engaged in military or naval service in time of war; (5) disease contracted or disability sustained while the insured is outside the limits of the United States and Canada upon the North American continent lying south of the 55th degree of North latitude and Europe; (6) disability for any period during which the insured may claim or be entitled to claim indemnity under an accident policy of this company or any other company or association.

Provision is made in health insurance policies for loss of time due to temporary total disability, which is usually described as incapacity resulting from disease which shall wholly and continuously disable the insured and prevent him from performing any and every duty of his occupation, but which is not of a permanent nature. The payment of total disability benefit is dependent upon the insured's being treated by a legally

qualified physician; in some policies, it is contingent upon the insured's being continuously confined to the house; in others, it is dependent not on inability to engage in *his* occupation, but upon inability to engage in *any* occupation. The duration of the total disability benefit (and, sometimes, the total and partial disability benefits combined) is usually limited to 52 or 100 consecutive weeks.

Health insurance policies make provision for permanent total and partial disability, such as the permanent loss of the sight of both eyes, loss of use of both feet, both hands, one foot and one hand, one foot, one hand, loss of sight of one eye, and loss of speech or hearing. Such specific loss of use must generally be suffered within a certain period after the beginning of the disability. The benefit may be in terms of the principal sum or a sum equal to a certain number of the weekly payments as, for example, 100 weeks. This benefit is usually in lieu of other indemnity except hospital and surgical treatment. In some health insurance contracts, temporary partial disability is recognized, but, usually, this amounts to a period of partial disability following a period of total disability.

The usual duration of a partial disability benefit is very limited, averaging only about 20 weeks, and the indemnity is a fraction of the weekly indemnity. Some health insurance policies are issued with a life indemnity provision which agrees to pay the benefits as long as the insured lives and suffers such disability. This liberal feature, of course, requires a much higher premium.

Health insurance may provide a hospital benefit which is payable in addition to the loss of time benefit but in lieu of nursing, surgical, or hospital benefit. A usual qualification is that the disability must necessitate the removal of the insured to a hospital within a certain period after the beginning of the disability. Such a benefit is payable for a limited period.

A surgical operation indemnity is provided by health insurance policies if any of the specified operations listed in the schedule of operations are performed upon the insured as a result of sickness and within a certain time after the beginning of the disability. Only one indemnity for an operation is payable. A few health insurance policies provide for the payment of a nurse benefit if the services of a graduate nurse are required as the result of the illness, but it is usually in lieu of the surgical operation indemnity and the hospital benefit.

Health insurance is often written subject to a waiting period of one, two, three, or four weeks or more, before the disability benefits are payable. Such a feature greatly reduces the cost of the insurance. In many cases, health insurance benefits are not payable for illness causing disability within a certain number of days after the policy is issued.

The standard provisions are also made a part of the health insurance contract: the first fifteen provisions are required by the laws of many states; the others are optional. The thirteenth provision is omitted from health policies, for it deals with the rights of the beneficiary. These standard provisions regulate matters of health insurance, such as: (1) change of occupation; (2) changes in policy; (3) reinstatement of policy; (4) time of notice of claim; (5) sufficiency of notice; (6) forms for proof of loss; (7) time for filing proof of loss; (8) medical examination or autopsy; (9) immediate payment of indemnity; (10) weekly indemnity

payable in installments; (11) to whom indemnities are payable; (12) cancellation by insured; (13) limitations of time for bringing suit; (14) the limitations controlled by statute; (15) cancellation by the company; (16) pro rata payment in case of similar policy; (17) overdue premiums; (18) excess insurance; and (19) age limits.

The application for a health insurance policy is very important, for a copy of the application is indorsed upon the policy and, therefore, forms a part of the contract. The following information must be fully and accurately given in the application: name of applicant; age; place of birth; sex; color; height; weight; residence; occupation; business address; weekly earnings; personal habits; other disability or life insurance; past health experience, including a statement of any serious diseases or bodily infirmities or impairments; medical or surgical advice or treatment within the past five years (nature of ailment, duration, and name of attending physician); contemplated hazardous undertaking or special journey, and whether or not previous health insurance has been canceled, modified, postponed, or declined.

One health insurance rate generally applies to all ages (except for the noncancelable contracts) up to age 49, and a higher rate is charged after this age. Another age grouping is for all male risks of ages 50 to 54. Although it is evident that age plays an important part in sickness frequency and duration, different health insurance rates have not been computed for each age as in life insurance.

See Cancellation clause, accident and health policy; Commercial accident and health insurance; Compulsory health insurance; Convalescent disability indemnity; Fraternal accident and health insurance; Group accident and health insurance; Hospital indemnity—health insurance; House confinement health policy; Industrial accident and health insurance; Life indemnity health policy; Limited health policy; Noncancelable accident and health policy; Nonconfining policy; Nursing indemnity; Partial disability; Permanent partial disability in disability policy; Permanent total disability—health insurance; Probationary period—health insurance; Quarantine indemnity; Sickness; Surgical operation indemnity; Total disability in disability policy; Trade union sick and accident benefit; Waiting period accident and health insurance.

Health insurance provisions of life insurance. *See* Disability provisions of life insurance.

Health only policy. This policy provides indemnities for loss of time due to sickness.

Heat prostration. A heat stroke is generally not produced by accidental means. Some courts have held, however, that sun's rays are external and hence a heat stroke is accidental. Some policies agree to cover a sunstroke if due to violent and accidental means. The courts are divided on the question of whether or not a sunstroke is an injury due to violent and accidental means.

Height. The applicant's height, weight, physical impairments, if any, are important in determining the physical condition of the risk. Height in relation to weight is significant. Unduly large people make bigger targets for accidents and are less agile than normal persons.

Hernia. Hernia is generally excluded by accident insurance policies, but a hernia caused by an accident, such as a rupture caused by an accidental fall, is covered. The usual rule is that, if hernia existed and can be

proved to be a contributing cause of the accident, an exception in the policy regarding hernia is applicable. However, the mere fact that the hernia existed is not sufficient in itself to prove that it was a contributing cause of the accident. In some accident insurance policies, a benefit is payable for hernia, but it usually does not exceed two weekly indemnities.

Hospital and/or graduate nurse indemnities. Many policies contain a section which states that:

> If such disease, directly and independently of all other causes, shall require the insured to be confined in a hospital or be necessarily attended by a graduate nurse within ninety days from the date of commencement of disability, the company will pay, in addition to any other indemnity to which the insured may be entitled, fifty per cent. of the weekly indemnity hereinbefore specified for the period of time during which he shall be a patient resident in the hospital or shall necessarily employ the full time service of such a nurse, but not exceeding twenty weeks for either or both combined.

Hospital expense policy. A hospital expense policy agrees to reimburse the policyholder for hospitalization expenses due to hospital confinement; but does not obligate the company to procure hospital rooms for policyholders. Accident and health policies pay for loss of time, accidental death, and specific losses. Hospital policies reimburse for expenses incurred while confined to the hospital.

Hospital indemnity—accident insurance. A hospital indemnity clause may provide that the disability benefits under either health or accident insurance shall be increased (usually 50 per cent) for the period of time that the insured is confined to a hospital. The length of time for which this additional indemnity is payable is limited to a specified number of weeks.

In some accident insurance contracts, the following provision is made for a hospital indemnity: "If the insured shall, solely by reason of injuries for which weekly indemnity is payable under this policy, be confined in a hospital within 90 days from date of accident, the company will pay as additional indemnity 50 per cent of the weekly indemnity hereinafter specified for the period of such hospital confinement, but not exceeding 20 weeks." The amount of this benefit and the period for which it is payable varies to some extent. Additional amounts are provided by many policies to reimburse the insured, within a prescribed limit, for hospital expenses or as additional weekly indemnity during hospital confinement.

Hospital indemnity—health insurance. Health insurance policies customarily provide for a hospital indemnity in case the insured is confined within a regular hospital solely by reason of sickness. A usual qualification is that such confinement must occur within some limited period (such as 90 days) from the beginning of the disability. A stipulation is found in some contracts that sanatoriums are excluded. In some cases, the full weekly benefit is payable for 10 to 15 weeks; in others one-half the weekly indemnity is payable for 20 weeks. The hospital benefit, since it is provided in addition to the indemnity for loss of time, is generally in lieu of the surgical or nurse indemnity. If the policy contains a waiting period (such as two weeks), it may be specified that no indemnity will be paid for hospital confinement during the first two weeks of disability.

Hospitalization insurance. *Hospitalization insurance* is a broad term

which may refer to one of several types of hospital coverage. The term may have reference to the employers' establishment or other funds organized by employers for the benefit of their employees. It may mean the fraternal and labor union mutual benefit plans devised to take care of their members. Or the term may be appropriately used in connection with private commercial companies which have been issuing hospital benefits in connection with their policies for years. More recently the term has been applied to the voluntary nonprofit hospital associations and medical service plans.

In recent years there has developed a number of group hospitalization plans such as the original one at Baylor University Hospital and the large city-wide organization, the Associated Hospital Service of New York. Similar organizations have grown up in nearly every city, providing a membership in some type of hospitalization plan either on a group basis on individual memberships including wife and family. The chief characteristic of hospitalization insurance on this arrangement has been to provide hospital services, maternity benefits, surgical services on a prepaid membership basis. Some associations provide for complete medical care; others for surgical care and treatment only.

More recently, in part because of the influence of voluntary nonprofit group hospitalization, the private carriers have issued a wide variety of hospitalization—reimbursement coverages. The principal service of the voluntary group hospitalization plan has been hospital expense payments for individuals and other members of the families. There is no provision in voluntary group hospitalization insurance for payment of income for loss of time, which is after all the most serious loss from disability. Private carriers are now offering not only the loss of income benefit features but a rather complete hospitalization expense coverage both on an individual and a group basis. Many of the group forms provide hospitalization coverage for dependents.

Group voluntary hospitalization insurance has emphasized the hospital and/or medical expense idea. Private company disability insurance, up to recently, put the greatest stress on the loss of income idea. Now that the private carriers are developing the hospital expense side of the business, the most complete disability protection seems to be obtainable in the private carriers.

Hospitalization insurance may be purchased independently of any other form of insurance or as an additional benefit under a disability insurance policy for which an additional charge is made. Hospitalization insurance is distinguished from a hospital indemnity clause in that it provides specified benefits for the usual hospital charges.

House confinement health policy. A house confinement health policy is a form of health insurance which allows the payment of the specified weekly benefit only during the period the assured is constantly confined to his house as a result of the disability and is, consequently, prevented from engaging in his occupation. Of course, this restriction excludes from the coverage of the policy certain types of sickness, if the policy is strictly interpreted. Such a provision was primarily used as a test of total disability and to protect the insurer against faked claims. A "house confinement" clause is a measuring stick of sickness disability. It defines the degree of the illness. An insured who is confined to the house as a re-

sult of illness is necessarily more seriously ill than one who is not confined to the house, and yet not so seriously ill as if he were confined to his bed. The house confinement clause provides a certain weekly or monthly indemnity for illness which "confines the insured continuously within doors." At the present time, however, such a restrictive feature is not considered so valuable, and many policies are issued without mention of house confinement as a test of total disability. A typical house confinement clause specifies that:

> If such disease shall wholly and continuously disable the insured and prevent him from performing any and every duty pertaining to his occupation and shall confine him to the house, the company will pay the weekly indemnity hereinafter specified for the period of such continuous disability and confinement to the house.

Such provisions have often been very liberally interpreted by the courts, which have made inability to work the controlling test of disability. For example, it has been asserted that the insured is confined to his house within the meaning of the policy, when, while unable to work, he stays outdoors as an aid to recovery on the advice of his physicians or where he makes occasional visits to the doctor's office for treatment. One court asserted that:

> . . . confinement to the house does not necessarily mean constant literal restraint within the house. An occasional visit to the office of a physician for treatment or taking exercise or walking as a part of the plaintiff's treatment would not necessarily mean that he was not at such times confined to his house as contemplated by the policy. (*Standard Accident Insurance Co. v. Brock,* 1 S.W. [2 ed] 678, Jan. 4, 1928.)

In some instances, the courts have interpreted this restriction very strictly, permitting no recovery under such a policy as the totally disabled insured was out of the house a little while daily on the advice of his physician. *See* Health insurance.

I

Identification benefit. Identification benefits are usually contained in many accident and disability policies which provide that, if the insured, by reason of injury—and, sometimes, by reason of illness also—is unable to communicate with friends, the company upon receipt of a telegram or other message will immediately transmit to his relatives or friends information respecting him, and will defray within a specified sum the expense necessary to put him in the care of friends. These benefits are payable in addition to the indemnity otherwise provided. It is interesting to note that some accident policies make this provision for illness as well as injury. *See* Accident insurance; Health insurance.

Illness. *See* Health insurance; and, in Section One, Health of insured.

Impairment of earning power. The term *impairment of earning power* has been construed to mean that the injured person is unable to perform some work for wages, while his ability to earn money may not be entirely destroyed. *See* Permanent partial disability in disability policy.

Impairment rider. In accident and health insurance on the yearly renewal basis, the underwriter usually renews the risk and considers the desirability of continuing the risk each year. In case, however, the risk has become impaired, if there is just one impairment, the company may accept the risk excluding from liability loss resulting from the specific impair-

ment. This practice may be accomplished by attaching an *impairment rider* to the policy.

Income protection. Accident and health insurance policies, which pay a weekly or monthly indemnity on account of disability, provide income protection. Dismemberment only policies or hospital expense reimbursement contracts do not provide income protection. *See* Hospitalization insurance.

Incontestable clause. The word *incontestable* means "not to be disputed or denied." The fact that the policy is incontestable, means simply that it cannot be set aside, but does not signify that defense to a claim cannot be made within the terms of the policy. Some companies put a clause in their policies which makes the contract incontestable as to any statement made in the application. Waiver of this right to contest usually applies after the policy has been in force for a period of at least two years.

Indemnity. The term *indemnities* is generally used to describe the money benefits which the accident and health policy pays to the insured for loss of time due to disability, loss of hands, feet or eyesight, surgical operations, hospital confinement and benefits payable to the beneficiary because of accidental death. Disability policies providing more complete coverage will specify that either all or a part of the indemnity will be paid for a period following house confinement. In some cases, this indemnity is payable for the duration of the disability; in others it is limited to a specified number of weeks.

Indemnity accident policy. An indemnity accident policy may be a policy providing lump sum benefits for the loss of sight, hands, or feet, but not for loss of life, or a weekly indemnity may be paid for total or partial disability arising from accidental injury. *See* Accident insurance.

Indemnity benefits. Indemnity benefits for loss of life, limb, or sight are commonly stated as follows:

> If such injuries so sustained, shall result independently and exclusively of all other causes and within ninety days from the date of the accident, in any one of the losses described in this Section, the Company will pay the sum specified for said loss.

FOR LOSS OF	
Life Both Hands Both Feet One Hand and One Foot One Hand and Sight of One Eye One Foot and Sight of One Eye Sight of Both Eyes	The principal sum
Either Arm Either Leg	Three-fifths the principal sum
Either Hand Either Foot	One-half the principal sum
Sight of One Eye	One-third the principal sum
Thumb and Index Finger of Either Hand	One-tenth the principal sum

> Loss of arm, leg, hand, foot, or thumb and index finger, shall mean actual severance thereof at or above the elbow, knee, wrist, ankle, or metacarpal phalangeal joint respectively. Loss of sight of eye or eyes shall mean total blindness thereof beyond remedy by surgical or other means. If more than one such loss results from injuries sustained in one accident, the Insured shall receive only the largest benefit provided in this Section for any one of the losses so sustained; and upon occurrence of any injury causing any such loss, the insurance under this Policy shall immediately cease, and the payment of indemnity therefor shall terminate this Policy.

Independently of other causes. This phrase has for its objective to limit the accident insurance policy to consequences due solely to an accident. The accident must be the sole cause of an injury and not the result of

other contributing or concurrent factors. Where disease and injury concur to cause disability or death, the situation becomes complicated, and some courts have liberally construed the policy in terms of proximate cause.

Industrial accident and health insurance. Industrial accident and health insurance is designed to fit the requirements of the general class of manual laborers or hazardous risks, such as factory workers, masons, painters, structural steel workers, and so forth. Industrial workers are constantly exposed to dangers of frequent and severe accidents. Their working and living conditions are often the cause of much sickness. The industrial policies are usually issued for relatively small amounts, especially for specific losses or death. The loss of working time is a more serious loss to the industrial worker than to the so-called "commercial" worker, who often does not suffer a loss of salary when injured or sick. The industrial policy, therefore, is often adapted in this respect, giving a higher weekly benefit for temporary disability and smaller indemnity for specific losses.

The coverage is also generally limited in scope and the after benefits are payable for shorter periods. The premiums for industrial disability insurance may be paid weekly, semimonthly, or monthly. Only a small amount of the accident and health insurance is issued on the industrial plan. *See* Accident insurance; Commercial accident and health insurance; Health insurance.

Industrial disability insurance. *See* Industrial accident and health insurance.

Inevitable accident. The term *inevitable accident* is used to indicate an accident which cannot be foreseen and prevented from happening. It is used similarly to the term *fortuitous event.* In some cases, the term *inevitable accident* is considered as being broader than *act of God,* which is often defined as any cause operating without the aid of man.

Inhaling gas. Some courts have held that inhaling gas is not taking poison. *See* Asphyxiation.

Injury. *See* Accident insurance; Accidental injury; Accidental means; Excepted causes of accidental injury or death; External and violent means of injury; External and visible signs of injury.

Injury or bodily or mental infirmity. In life and accident insurance, statements regarding previous injuries and bodily infirmities are considered very important. In many cases, past bodily injuries or mental infirmities make the person more susceptible to future disease or accident. False statements regarding such facts, when material to the risk, have been considered important enough to void the insurance policy.

Infirmity has been considered in *Black v. Traveller's Ins. Co.,* 121 Fed. 732, 58 C. C. A. 14, 61 L. R. A. 500, as one that will increase the hazard of death in event of an accident, or one that has injured the bodily powers. Usually, by injury, in this connection, is meant an accidental injury which might affect the physical well-being and life of the insured and not every slight or temporary injury.

Installment option to beneficiary. In some accident insurance policies, there are clauses giving the beneficiaries the right to elect to have the payment made in installments. A typical provision is as follows:

> In case of valid claim for death under this policy, the beneficiary may elect to have it paid in monthly installment as follows, for each $1,000 (first installment

to be paid immediately after receipt of due proof of claim):

	60 Monthly Installments Certain of	$18.10
or,	120 Monthly Installments Certain of	9.86
or,	180 Monthly Installments Certain of	7.14
or,	240 Monthly Installments Certain of	5.78

Upon the written request of the beneficiary at any time before all of the installments elected hereunder shall have been paid, or upon the like request of her executor or administrator, if she shall die before receiving all of such installments, the then present value of the remainder thereof computed at three and one-half per cent interest will be paid in one sum to the beneficiary or to her executor or administrator, as the case may be.

Insuring clause. The insuring clause indicates what the policy of insurance principally covers. This clause is usually introduced at the beginning of the policy and upon its proper interpretation nearly every provision in the policy depends.

In the accident policy the two salient parts of the insuring clause are that the bodily injury must be: (1) directly and independently of all other causes; and (2) effected solely through accidental means.

Intemperance. One of the questions asked in the application for accident and health insurance is: "Are your habits of life correct and temperate?" Any pernicious habit that tends to increase the hazard of accident to the insured might be considered intemperate. Examples of such bad or vicious habits that would be called intemperate are the immoderate use of intoxicating drinks or narcotics.

Intentional injury. An *accident,* according to the definition given in accident policies, from the standpoint of the insured and without intention on his part, includes injuries intentionally inflicted upon him by some other party. An accident insurance policy, therefore, unless expressly excluding such intentional injuries, would provide coverage for such injuries.

In order to prevent claims from such injuries, accident policies may stipulate that death or incapacity caused by injuries intentionally inflicted upon the insured by himself or any other person are not covered. Such provisions in policies often vary in phraseology. Of course, under such an exclusion, no recovery can be made for self-inflicted injuries. Not infrequently, a question arises as to whether or not the injury was self-inflicted. Usually, in such cases, the pecuniary circumstances of the insured are looked into to see if the insured was greatly in need of money, and also the acts, conduct, statements of the insured, and the conditions under which the policy was issued may be considered. If the policy excludes only "intentional injuries," the company may be liable for injuries inflicted solely by third persons.

Under policies excepting intentional injuries inflicted by other persons, it has been held that it is not necessary, to make the exclusion applicable, for the insured to have expected the injury or been involved in the intention of the other person. It has been asserted in one case that this exclusion is applicable even where from the character of the occupation (such as in the case of a policeman) the insured is subject to the hazard of intentional injuries in his line of work (*Miller v. Interstate Casualty Co.,* 17 Pa. Super. Ct. 360). Many courts have held that this exception of intentional injuries inflicted by other persons relieves the insurer from liability though the insured is murdered without regard to the motive. It has also been asserted that the company under such an exclusion is relieved of liability from

the intentional injury although the act resulted in a different injury from the one intended by the party. However, it is the opinion of some courts that such injuries caused by an insane man do not come under this exclusion, unless otherwise provided, on the grounds that an insane man cannot form a rational intent or grasp the results of an act. This exception may be worded to exclude such injuries by specifying that no coverage exists for injury "intentionally inflicted upon the insured by any other person, sane or insane." *See* Accidental means.

Intermediate disability. *Intermediate disability* refers to that degree of incapacity which from the date of the accident or following a period of total disability prevents the insured from performing "a major portion of the daily duties pertaining to his occupation." The period for which such disability benefit is payable is usually limited. *See* Accident insurance; Partial disability; Total disability in disability policy.

Intermediate notice. This is a report required in many policies to be furnished after the preliminary notice, and before final proof, informing the company as to the physical condition of the insured and the probable duration of his disability. This blank is used to comply with that provision of a policy requiring a report as to the physical condition of the insured periodically, usually every 30 days, during the continuance of his disability. It is sometimes designated as the "second preliminary notice."

Internal injury. Accident policies usually cover injuries caused by external means resulting in internal injuries, such as fright from external causes. They generally do not cover injuries resulting from natural or internal causes or diseases. In many cases, internal injuries caused by conscious overexertion are not covered. In regard to the provisions of accident policies concerning injuries, Joyce (*Law of Insurance,* Vol. V, p. 503) says: "The contract should be examined to ascertain what is meant by 'external injuries,' whether upon the face of the contract internal injuries are clearly excluded and whether 'external' is to be taken in contradistinction to internal causes of injury, as where injuries arising from disease are excepted. So if death ensues, the efficient proximate cause of loss must be considered; not necessarily the nearest but the efficient, adequate cause being found, that will be deemed the true cause without going further. It should also be determined whether any independent supervening cause exists which may exclude consideration of a cause further removed."

See Injury or bodily or mental infirmity; Bodily injury; Excepted causes of accidental injury or death; External and violent means of injury; External and visible signs of injury; Voluntary overexertion.

Intoxication. Accident policies may provide that injury or death suffered *while* the insured is intoxicated is not covered. Also, injury or death occurring as a result of the insured's being intoxicated is often excluded. The exception in the policy may specify that no coverage exists for injuries or death occurring while the insured is "under the influence of intoxicating liquor." This means that the insured must be in a state of intoxication for the exception to be operative, and not merely that he had a chance to drink or that he did drink. It has been held that the company under such conditions was not liable if the insured was intoxicated at the time of the accident, irrespective of whether his intoxication helped to cause the injury. The

burden of proof is on the insurance company to prove that the insured was intoxicated. *See* Intemperance, in Section One, Life Insurance and Annuities.

Invalidity insurance. *See* Health insurance.

Invalidity provisions of life insurance. *See* Disability provisions of life insurance.

J

Jumbo risk. A *jumbo risk* is a large amount written on one person. Jumbo lines, to be written carefully, require reinsurance. Lloyds are accustomed to handling jumbo risks. During a depression period the premium volume falls off markedly if much insurance is carried on jumbo risks.

L

Labor union sick and accident benefit. *See* Trade union sick and accident benefit.

Lapse. A policy is considered to have lapsed when the insured has failed to pay any premium when due, subsequent to the initial premium.

A policy may be reinstated, subject to the approval of the company, by the insured's paying the past due premium and submitting a health certificate. The company may require a medical examination.

Leaving moving conveyance. *See* Entering or leaving moving conveyance.

Legal notice. Standard provision No. 5 covers the matter of legal notice in case of a claim. This provision reads:

> Such notice given by or in behalf of the Insured or Beneficiary, as the case may be, to the Company at its home office in New York City or to any authorized agent of the Company, with particulars sufficient to identify the Insured, shall be deemed to be notice to the Company. Failure to give notice within the time provided in this policy shall not invalidate any claim if it shall be shown not to have been reasonably possible to give such notice and that notice was given as soon as was reasonably possible.

Two vital points are involved in standard provision No. 5—designation of the party to whom notice of injury or sickness must be given in order that the claim may be legal, and what might be termed a modification of standard provision No. 4 stating that the claim is not to be invalidated if it was not reasonably possible to give notice of the injury or sickness sooner than such notice was given.

It will be noted that it is *legal notice* of intention to make a claim if such written notice is given to an agent as well as to the company. This places a definite and specific responsibility upon the agent, who is the one usually notified as to injury or sickness. Agents should notify the company promptly of all losses reported to them.

The second part of standard provision No. 5 protects the policyholder or his beneficiaries in those cases where the condition of the insured following the accident or the death of the insured might prevent giving notice within 20 days from date of accident or ten days from commencement of sickness. Thus in the case of a man without friends or relatives where the courts might not appoint an administrator of his estate until more than 20 days after his death, it might not be considered reasonably possible that the notice should be given as specified in standard provision No. 4. A sick man, ill for five days, intending to notify the company within the ten-day limit might

become and remain unconscious beyond the time limit so that it was not reasonably possible for him to comply with the law. Agents should always stress before the policyholder the importance of giving immediate notice of injury or illness. Then no difficulties can arise.

Level accident insurance. In accident insurance, there is a standard relationship between the amount of the principal sum and of the weekly indemnity upon which the rate is figured. If the policy, as issued, retains this standard proportion between those two amounts, it is called *level insurance.* If the standard relationship is altered, the policy is called *unlevel insurance.* To illustrate, if the unit amount of insurance is $2,000 principal sum and $5 weekly indemnity at the premium rate of $5.50, then, if *level* amounts are retained, a policy for $10,000 principal sum, and $25 weekly indemnity (five times the unit amount), would take a premium rate of five times the unit rate of $5.50 or $27.50. If the *unlevel* amounts of $7,500 principal sum and $25 weekly indemnity were wanted under this policy, the premium rate would be calculated differently to make allowances for the disproportionate relationship between the principal sum and the weekly indemnity.

Life and limb policy. *See* Death and dismemberment policy.

Life indemnity accident insurance. Companies belonging to the Bureau of Personal Accident and Health Underwriters on January 1, 1929, eliminated from their policies the clause providing indemnity for life if the insured is so disabled by injury that he cannot continue at his own occupation. They provided two substitute conditions: (1) indemnity for one year in case the insured's injury prevents him from continuing at his regular occupation but does not prevent him from engaging in some other work; or (2) life indemnity if the insured is so injured that he cannot engage in any occupation. This provision has reduced the loss ratio on dismemberment claims. For example, under this plan, a violinist whose loss of a finger prevents his violin playing would receive compensation for one year.

Life indemnity health policy. Some health insurance policies contain a life indemnity feature; that is, they promise to pay a benefit for the duration of the disability or for the remainder of the insured's life. In many cases, this payment for permanent total disability is only a percentage of the total disability benefit. Policies with such a life indemnity feature may or may not contain the house-confinement qualification, but they require a high premium. The following is an example of such a clause:

> If following a period of fifty-two consecutive weeks total disability, during which the Insured shall have been wholly disabled and prevented by bodily disease, not hereinafter excepted, from performing any and every kind of duty pertaining to his occupation, the insured shall continue to suffer such total disability (no claim being made for loss of sight or loss of use of limbs), the company will pay one-quarter of the weekly indemnity as long as the insured lives and suffers such total disability.

See Permanent total disability—health insurance.

Lifetime policy. This is a noncancelable policy which gives the insured the option to renew the contract for life and pays benefits during the whole life of the insured. The lifetime policy has been replaced largely by the aggregate indemnity or maximum disability type. *See*

Aggregate indemnity; Maximum disability policy.

Limited accident policy. A limited accident policy is one that covers only certain specifically enumerated kinds of accidents. In some cases, such contracts go so far as to describe how such accidents may occur. Automobile accident policies and newspaper accident policies are examples of such limited contracts. Limited accident policies often prove very misleading and unsatisfactory. The following is an example of the way a very limited accident policy restricts the manner in which injuries must be sustained to be covered:

(1) while actually riding as a passenger in a place regularly provided for the transportation of passengers only, within a railroad car, elevated, subway or interurban, railway car, street car, or steamboat, provided by a common carrier for passenger service; or (2) while a passenger within an elevator provided for passenger service only; or (3) while riding within a private automobile, not being used for any business purpose or any work whatsoever and provided the insured shall not be a hired operator (not applicable to physicians in the practice of their profession, commercial travelers, collectors, licensed real estate and insurance agents), and only in case of accident which shall materially injure the automobile; or (4) while riding upon a motorcycle and caused solely and directly by a collision with any moving conveyance, except another motorcycle, and not being used for any business purpose or any work whatsoever (subject to same exception as clause 3); (5) while riding upon a bicycle (not a motorcycle) and caused solely and directly by a collision with another bicycle or any moving conveyance; or (6) while walking on a public highway, by being injured by actual contact with a bicycle or any moving conveyance or vehicle, provided the insured is not or has not been employed on or about the conveyance or is not stopping or attempting to stop a runaway; or (7) while walking on a public street or sidewalk, by being struck by a falling sign-board, awning, brick, stone, or other debris falling from a building (except buildings in process of construction, repairs, or demolition); or (8) while riding within a conveyance drawn by horse power, provided that the insured shall not then be a hired driver nor be riding or driving in or upon any conveyance containing any merchandise or used for any business or any work whatsoever (subject to the same exception as clause 3); or (9) by the burning of a dwelling, hotel, office building, theatre, school, church, lodge room, club house, store, or barn, in which the insured may be burned by fire or suffocated by smoke, provided the insured shall not be assisting or acting as a watchman, policeman, or a volunteer or paid fireman; (10) while getting on or off or being on the step or platform of any conveyance (railroad car, elevated, subway, or interurban railroad car, street car, or steamboat provided by a common carrier for passenger service); or (11) by being struck by lightning, cyclone, or tornado; or (12) by being kicked by a horse or gored by a bull or a cow; or (13) while actively engaged in farming, by actual contact with and while operating a threshing, mowing, reaping, or binding machine, harrow, or plow; or (14) by a regularly licensed physician, surgeon, dentist, undertaker, or nurse accidentally cutting or wounding himself while holding an autopsy or performing a surgical operation and simultaneously therewith becoming inoculated with poison.

Such policies often contain an additional benefit which stipulates that, if as the result of any accident in or out of business not otherwise covered by the policy, the assured "is continuously confined [illegible]o the house and attended by a p[illegible]sician, not leaving it at any tim[illegible]r any purpose whatsoever and [illegible]ll be wholly prevented from at[illegible]g to any and every kind of wo[illegible]usiness, for a period not le[illegible]n 30 consecutive days from d[illegible] accident, the company wi[illegible] the

sum of $25." *See* Accident insurance; Ticket accident policy; Automobile accident policy; Newspaper accident policy.

Limited female coverage. Some disability policies provide that, after the policy has been in force ten months, *pregnancy* and *other conditions of female organs* will be covered up to a limit of ten days of hospital indemnity only.

Limited health policy. A limited health policy covers disability resulting only from the specific diseases enumerated in the policy. At the present time, there are only a few limited health policies issued, although before 1903 many such policies were used. Such a limited coverage was very unsatisfactory, and, as a result, the general health policy is used almost exclusively now. The following is a list of some of the diseases which are scheduled in such policies: yellow fever, typhus fever, scarlet fever, scarlatina, typhoid fever, smallpox, varioloid, diphtheria, measles, Asiatic cholera, erysipelas, appendicitis, diabetes, peritonitis, tetanus, angina pectoris, pleurisy, pneumonia, acute hydrocele, cerebral apoplexy, brain fever, epilepsy, sunstroke, cancer, malignant tumor, hydrophobia, whooping cough, mumps, acute cerebro-spinal meningitis. *See* Health insurance.

Limiting provisions. *See* Additional provisions; Exclusions.

Limits. The word *limits* is used to restrict age groups for disability insurance, usually between ages 18 to 60. It is also used to describe the maximum amount of insurance written, such as $5,000 principal sum.

Liquor hazard. The daily drinker and the spree drinker are usually bad risks for disability insurance. The social drinker must be checked for behavior, especially in connection with the operation of automobiles. If the abstainer is one who has been "cured," the question of previous physical impairment enters into the selection of such a risk. *See* Intoxication; Drinking.

Local issue of policies. Standard provision No. 19, which deals with excess insurance and other insurance in the same company, is used by companies that permit local agents to issue policies. *See* Other insurance in the same company.

Loss of bodily member. "Loss" as related to a bodily member means, with regard to hands and feet, actual severance through or above wrist or ankle joints; with regard to eyes, entire and irrecoverable loss of sight; with regard to thumb and index finger, actual severance through or above metacarpo-phalangeal joints. *See* Dismemberment, loss of sight, or death indemnity.

Loss of life. The amount paid for loss of life is the principal sum plus such weekly indemnity as may accrue from the date of the accident to the date of the death. The time limit during which the indemnity for loss of life accrues varies with different companies. Most companies provide that death must occur within 90 days of the accidental injury unless, following the accidental injury, disability has been total and continuous, in which case the principal sum may be paid for death occurring within 200 weeks.

Loss of sight. *Loss of sight* is usually defined as the entire and irrecoverable loss of sight. The usual accident policy pays the following benefits for dismemberment and loss of sight: for loss of both hands, both feet or sight of both eyes, the principal sum; for loss of the combination of one hand, and one foot or the sight of one eye, the principal sum; for loss of one hand or one foot, one half of the principal sum; for loss

of the sight of one eye, one third or one fourth of the principal sum as the policy may provide.

See Accident insurance; Dismemberment, loss of sight, or death indemnity.

Loss of time benefit. In health and accident insurance, a provision is made for payment of weekly or monthly benefit for disability (total or partial) which causes loss of working or business time. Indemnity for loss of time is one of the basic benefits in both accident and health insurance policies.

Lost policies. The following are generally company rules on lost policies:

Duplicate policies or renewals will be furnished only upon proof (upon Company's own form) that the policy or renewal has been lost or destroyed. If a policy is reported as lost or missing, it must be in turn reported to the Company's office for attention. Under no circumstances may an agent issue a duplicate policy without special written permission from the Company.

M

Maximum disability type policy. The maximum-disability-period type of policy is one of the noncancelable forms. This kind of policy limits the company's liability for any one disability, but, unlike the aggregate type, places no collective limit on the total amount of indemnities payable. This is not a lifetime indemnity form, because the policy usually puts a time limit for which indemnities will be paid. *See* Aggregate indemnity; Lifetime policy.

Maximum limits. This refers to the highest principal sum or indemnity payments that a company will write on a given class for the type of policy issued. A principal sum or capital sum of $5,000 or $10,000 is probably the usual limit, though not always the maximum that a company will write.

Medical attendance declaration. In life, accident, and health insurance, an applicant is required to give the insurance company facts concerning what medical attendance he has had, including the names of the physicians. The following is an example of such questions as asked in the typical life insurance application:

(1) When were you last confined to the house by illness? How long? What nature?

(2) When did you last consult a physician, and for what? (3) Have you fully recovered and are you now in good health? (4) Give name and address of the physician who attended you. (5) Give name and address of your usual medical attendant. (6) Are you willing that your physician be consulted in regard to your health?

Regardless of the specific language employed in such questions, the purpose of them is to give the insurer facts concerning the applicant's health and the name of the physician who can verify the statements made by the applicant if necessary.

There are many court decisions upholding the rule that such statements are warranties material to the risk and that, if these statements are false, they will void the contract. In other cases, however, the intent of the applicant has been considered important. It has been asserted that it is not always essential for the applicant to reveal every consultation or attendance by a physician for slight indispositions not of a serious nature.

Medical attendance indemnity. Many accident insurance policies contain a promise to indemnify the assured in case the injury requires treatment by a physician within 90 days from the accident. Under such a provision, many nondisabling injuries are taken

care of. This indemnity, however, is not payable if the assured is claiming a total disability benefit. Such a medical attendance benefit provision may stipulate that:

> . . . if such injuries do not result in disability, but require surgical treatment by a physician within 90 days from date of accident, the company will pay the amount actually expended for such treatment, not exceeding the amount of weekly indemnity hereinafter specified.

See Accident insurance.

Medical examination. Sometimes a medical examination is required in connection with disability insurance. Determination of whether or not to require an examination is usually decided as follows:

> The application shall first be forwarded to the company without the requirement of a medical examination. After the underwriting department reviews the application and determines therefrom the physical status and history, it will decide if a medical examination is necessary or whether the policy can be issued without such an examination.

Standard provision No. 8 provides that the company make a medical examination of the claimant and may perform an autopsy in case of death.

Medical expense rider. Provision for payment of medical expenses is sometimes taken care of through the use of a rider. This rider, sold at an additional premium, provides for the payment of the cost of treatment by a physician or surgeon, and for nurse's care and hospital expense. It is an endorsement attached to the standard accident policy only and must take effect and expire concurrently with that policy. The payments are made in addition to any other indemnity to which the insured may be entitled under the policy, except the hospital, nurse, and surgical indemnity provisions.

Medical reimbursements. Many commercial "accident only" policies contain a provision reimbursing the insured for the actual expense incurred by hospitalization, medical and surgical treatment, X rays, laboratory fees, and all other medical, surgical or hospital expense. A maximum limit is stated in the provision which must not be exceeded by the total of all such expense, and in some policies the expense is allocated for various operations, the number of physician's visits, and the length of hospitalization. Some of the newer policy forms now provide a limited form of reimbursement that covers expense incurred as a result of not only accidental injuries but sickness. These benefits may also be included in a separate hospital policy form.

Merit rating clause. *See* Accumulations.

Military or naval service. Most disability policies exclude military or naval service. Some policies will cover while the insured remains within the continental United States.

Miscellaneous expenses. Some disability policies contain a section entitled "miscellaneous expenses." Typical of this provision is the following:

> If on account of such injuries or disease and during a period for which hospital indemnity is payable under Part I of this Policy, the Insured shall incur expenses for X-ray examinations, laboratory tests, medicines, surgical dressings, anesthetics or use of operating room, the Company will pay, in addition to any indemnity payable under Part I, the expenses incurred therefor, but not exceeding $25.00 for any or all combined.

Misfortune. *See* Accident insurance; Risk.

Modified incontestable clause. Such a clause usually provides that the policy is incontestable as to date of

commencement of any disease causing loss after the policy has been in force for two years. *See* Incontestable clause.

Monetary indemnity. A *monetary indemnity* is to be distinguished from payment for services. In the event of hospital and/or graduate nurse attendance, the company will pay an additional amount equal to 50 per cent of the weekly indemnity during the period of such confinement or attendance, but not exceeding 20 weeks for either or both combined. This is called a monetary indemnity.

Monthly indemnity. In most accident and health policies, an indemnity for loss of time is payable weekly, but, in some policies, it is payable monthly. Monthly indemnity may be paid for total and partial disability. The following is an example of a total disability clause of an accident policy specifying monthly indemnity:

> If such injuries shall not result in any of the losses enumerated in Section One, but independently and exclusively of all other causes shall wholly and continuously disable and prevent the insured immediately following the accident from performing any and every duty pertaining to his occupation, the company will pay for the period thereof the Monthly Indemnity above specified.

Monthly policy. An accident and health policy, described as a monthly form, is usually sold to persons engaged in a slightly more hazardous occupation or largely the medium-income class. The amount of benefits is usually smaller than that of commercial policies, and the premiums are generally payable on the monthly basis with the option of paying quarterly, semiannually or annually. The principal difference between the commercial and monthly forms is the mode of premium payment.

Morbidity table. A morbidity table is a table prepared to show the extent of sickness in each year which may be expected from a given group of persons. Complete morbidity statistics are difficult to obtain, and the tables in use are based on partial information only. This fact explains to some extent the reason why health insurance is not written on a scientific basis at the present time.

Harvey, Hunter, and Cammack have constructed tables that might be classified as morbidity tables.

Multiple indemnity provision of accident policy. The multiple indemnity clause stipulate that the indemnity payable for certain accidents occurring in a specified place or manner will be increased (doubled, trebled, quadrupled) over the original indemnity provided for death, dismemberments, loss of sight, or for total and partial disability, or that the optional benefits may also be increased. Such a clause usually provides:

> If such injuries are sustained: (1) while a passenger in or on a public conveyance provided by a common carrier for passenger service (including the platforms, steps, or running board of railway or street railway cars); (2) while a passenger in a passenger elevator (excluding elevators in mines); or are caused (3) by the burning of a building provided the insured is therein at the commencement of the fire, or by the collapse of the outer walls of a building while the insured is therein; (4) by a stroke of lightning; or (5) by the explosion of a steam boiler; or (6) by a cyclone or by a tornado; the company will pay double the amount otherwise payable under part A (death, dismemberment, and loss of sight) or B (total and partial disability) of this policy.

In analyzing the merits of such a clause, it is important to know

whether (1) the benefits are to be doubled, tripled, or quadrupled; (2) the increase is applicable to the principal sum only, the weekly indemnity, or to both; (3) the clause covers accidents caused by public conveyances, provided by a common carrier for passenger service (excluding service by air) or only by railroads or street cars and boats, or only by railroads and street cars; (4) the coverage applies to platforms, steps, and running boards; (5) the car must be derailed, wrecked, or burned; (6) the coverage is for injuries caused by the collapse of a building or the outer walls; (7) the insured must be in the building at the beginning of the catastrophe; (8) pedestrian accidents are covered. *See* Accident insurance.

Murder. Murder if committed on the insured when unprovoked may be held to be accidental. Some policies exclude injuries that are intentionally inflicted. Whether such a provision excludes murder is subject to court decisions.

Mutual participation. This is a condition in which policyholders would share in dividends under disability policies. The practice is not common in accident and health insurance.

N

Narcotics. Illness or death from the use or abuse of narcotics is not covered under disability policies. *See* Intemperance.

Nationality. Nationality and race play an important part in the selection of risks for accident and health insurance. Most companies place restrictions on race because of the complicated underwriting problems involved in writing different races.

Natural death. No payment is made in disability policies for natural death. This is the field of life insurance. Death must be accidental.

Newspaper accident policy. Newspaper accident policies are limited forms of accident contracts that are usually issued to regular subscribers of newspapers. In such cases, the newspapers purchase the coverage from the insurance companies. The newspaper may include the cost of this insurance in the subscription charge for the paper. Some newspapers require their regular subscribers to make application for this insurance and pay a nominal sum for insurance for loss of life and certain accidents. No physical examination is required, and the insurance is issued to persons between the ages of 15 and 65 years of age. One subscription to the newspaper usually entitles all the members of the family to take out a policy by each paying the required amount. The coverages of these policies are not all uniform, but, in most cases, they are limited to certain accidents, such as travel, pedestrian, fire, cyclone or tornado, earthquake, lightning, explosion, and so forth.

For example, such a limited accident policy may cover loss arising directly and independently of all causes from bodily injuries caused by external, violent, and accidental means sustained by the assured: (1) while a passenger in or on any railway passenger car, including elevated, subway, interurban, street car, or the platform, steps, or running board; (2) while a passenger in vessel licensed as a passenger carrier which is supplied with mechanical power; (3) while a passenger in an elevator used for passenger service (excluding mines); (4) while being in a building during a fire or collapse thereof; (5) while walking on or across a public street by being struck or run down by a conveyance; (6) in consequence of a cyclone or tornado; (7) as a result of

an earthquake; (8) arising from the explosion or collapse of a steam boiler; (9) while a passenger in a public omnibus, taxicab, or automobile; (10) by drowning accidents at public bathing beaches while a lifesaver is on duty.

These policies provide principal sum payments for loss of life and specified injuries, or weekly payments for a limited period for the specified injuries. Some newspaper policies are issued with an accumulative feature. *See* Accident insurance; Limited accident policy.

Nonassignable clause. *See* Assignments; Hospital liability insurance.

Noncancelable accident and health policy. A noncancelable accident and health policy is one in which there is a provision to the effect that the insured may renew his policy at the end of each policy year, and the company does not have the right to cancel the policy. There are only a few companies who issue a noncancelable accident policy. This, of course, is an important provision in the policy, for it prevents the company from refusing to renew or to cancel the policy if a risk develops an unusual accident experience or if the risk becomes physically impaired. In some of the noncancelable contracts used at the present time, the company is not allowed to cancel the policy or refuse its renewal, except for failure to pay the premiums, up to a certain age, usually 60 or 65 years. Such a clause, for example, states that:

> The insured shall have the right to renew this policy for a term of .... years by the payment of a like premium on the .... day of ...... in such succeeding year, provided, however, that this policy shall not be renewed beyond its anniversary date nearest the sixtieth birthday of the insured.

A noncancelable nonaggregate accident and health policy is one which has no limit as to the number of claims a policyowner can have, but there is usually a time limit in respect to each. A noncancelable aggregate health and accident policy is a type which guarantees a specified number of weeks or months collectively during the lifetime of the policy. Another type is noncancelable for the period for which the premium is paid, but the company retains the right to refuse to renew. This type must be contrasted with the noncancelable guaranteed renewable policy, which is the only real noncancelable contract from the insured's viewpoint.

In most of the noncancelable contracts, the policy provides benefits for loss of life, dismemberments, and loss of time; in others, only the loss of life and time benefits are provided; and some provide only for loss of time benefits. In some, the total disability provision is very liberal, being defined as the "total loss of all business time," but in others it is more restricted. In some contracts, the provision for benefit payments extending beyond the first year will be contingent upon the insured's "inability to engage in any occupation for wage or profit."

A noncancelable contract, offering the permanent protection, is issued only to a selected risk because of the nature of the hazard to be assumed by the company. A noncancelable contract is issued in such a form that it may continue for a long term, and it is originally issued upon the assumption that the assured is in normal physical condition at that time; but, in contrast to the usual accident policy subject to company cancellation or refusal of renewal, it is not issued upon the assumption that the insured will always maintain this

normal physical condition. Therefore, in order to determine more scientifically the actual present physical condition of the applicant, a very thorough medical examination is required.

Moreover, the premium required for the noncancelable contract is not only higher, but it is based upon the applicant's age at the time the insurance is issued, being higher for the insurance issued at the older ages. The premium, however, does not change according to the age of the insured after the policy is issued. *See* Accident insurance; Cancellation clause, accident and health policy; Health insurance.

Nonconfining health policy. A non-house-confinement health policy is one which allows the payment of the full benefit for total disability irrespective of whether the policyholder is confined to the house. Such a coverage requires from 20 to 30 per cent higher premium than the policy that makes house confinement a test of total disability, but it is usually a more desirable coverage. For example, under this policy, a person totally incapacitated from performing the duties of his occupation as a result of boils, felons, external abscesses, or severe nervous breakdown would be entitled to receive compensation; whereas he would not receive any benefit under the house-confinement policy if his sickness did not confine him to the house. Like most health insurance policies, however, there is a stipulation in such a policy that the insured must be treated by a legally qualified physician. The benefit is usually limited to 52 or 100 weeks' duration. A typical clause specifies that ". . . for the period of continuance of disability during which the insured shall, independently of all other causes, be wholly disabled and prevented by bodily disease from performing any and every kind of duty pertaining to his occupation, the company will pay the weekly indemnity; but no payment shall be made in excess of 52 consecutive weeks' duration." *See* Health insurance; House-confinement health policy.

Nondisabling injury benefit. *See* Medical attendance indemnity.

Nondisabling medical. Some disability policies have a provision of this type. Generally the payment covers the cost of surgical treatment.

Nonfatal injury. *See* Accident insurance.

Nonoccupational policy. This policy is written on risks that are covered under workmen's compensation insurance for occupational injuries arising in the course of their employment. This policy covers accidents arising outside the course of their employment. Such policies may cover for death and dismemberment, and provide weekly indemnity and benefits for hospital, nurse, and medical care.

Nonprorating policy. A nonprorating policy is one in which the insurer guarantees the insured that it will pay the amount specified in the policy to him regardless of any change in his occupation to one more hazardous, provided it is not a prohibited risk or one that is affected by other insurance. Provision for the insertion of this guaranty is found in one form of standard provision No. 1 which reads:

> This policy includes the endorsements and attached papers, if any, and contains the entire contract of insurance. No reduction shall be made in any indemnity herein provided by reason of change in the occupation of the insured or by reason of his doing any act or thing pertaining to any other occupation.

This clause clearly states that no reduction in indemnities will be

made under the conditions described above. It is an added protection to the insured's interests and ties in with the noncancelable idea. Naturally it is found only in the higher premium contracts.

Nonrenewable accident insurance. *See* Accident insurance; Cancellation clause, accident and health policy.

Notice of claim. The notification of accidental injury, dismemberment, or death must be made to the company as soon as reasonably possible, but, in any event, not later than within the number of days specified in the policy. The laws in many states fix the notice to twenty days for accident insurance and ten days for sickness.

Standard provision No. 4 deals with the subject of notice of claim and reads: "Written notice of injury or of sickness on which claim may be based must be given to the Company within twenty days after the date of the accident causing such injury, or within ten days after the commencement of disability from such sickness. In event of accidental death immediate notice thereof must be given to the Company."

This provision sets forth the time limit within which notice of injury or sickness is to be given and specifies that such notice shall be *written.* This requirement is to protect the company and its policyholders against those who might bring in fraudulent claims when all evidence of either the fraud or truth of the claim is no longer available. If a policyholder could give legal notice of a claim a year or even three months after date of accident, it might be impossible for the company to determine from competent evidence either the existence or the extent of liability.

Notice to agent. Numerous courts have held that the company, its officers, and its agents are one, and notice to, or knowledge of, such persons is held to be notice to, or knowledge of, the insurance company. Therefore, if the agent had knowledge of the mistake and failed to transmit that knowledge to the company, it is most probable that the company would be estopped from denying liability on the basis of misrepresentation.

Nursing indemnity. Some accident policies provide for a payment for registered graduate nurse's services in addition to the indemnity otherwise payable, but it is usually in lieu of hospital indemnity and sometimes the surgical operation indemnity. Such a clause may be as follows:

> If the insured shall, solely by reason of injuries for which weekly indemnity is payable under this policy, be necessarily attended by a graduate nurse within 90 days from the date of accident, the company will pay as additional indemnity 50 per cent of the weekly indemnity hereinafter specified for the period of time during which he is necessarily attended by said nurse, but not exceeding 20 weeks, provided no claim is made for hospital indemnity.

Nurse's fees are allowed under some health insurance contracts if the disease causes the insured to "be necessarily attended by a graduate nurse within 90 days from commencement of disability." The nurse benefit is additional indemnity, but it is customarily in lieu of hospital indemnity and sometimes surgical indemnity. The payment is generally one half of the weekly indemnity for not more than 20 weeks. *See* Accident insurance; Health insurance.

O

Obstetrical care. This is provided for under a number of the group hos-

pitalization plans. Obstetrical care is rarely covered under individual policies.

Occupational disease. Certain types of risks are not satisfactory for health insurance because of the occupational disease hazard. The following are samples of occupational disease hazards, found also under workmen's compensation insurance: (1) painting; (2) subaqueous work; (3) leadworking; (4) arsenic; (5) dyes and acids; (6) dusty trades; (7) poisonous gases. Health risks, unlike accident risks, have not been classified to any extent by occupation. The risk subject to the occupation disease is not accepted.

Occupational hazard. This is the degree of danger of incurring an accidental injury by reason of the duties of an occupation. For example, a railroad switchman is exposed to a greater degree of accident hazard by reason of his occupational duties than an office worker. *See* Accident classification manual.

Occupation of insured. *Occupation of insured* is a very comprehensive term and compasses the incidental as well as the main requirements of one's vocation, calling, or business. It is defined by lexicographers as "that which occupies or engages the time and attention; the principal business of one's life; vocation; employment; calling; trade." An occupation refers to the usual business, trade, or profession in which the person is engaged for wage or profit.

In accident insurance, the occupation of the insured is a very vital fact in the underwriting and rating of a risk. The question of the occupation of the applicant must be stated in many forms of insurance. It is the duty of the applicant to make a direct and complete statement of his permanent occupation at the time the application is made, in answer to a question of the insurance company. This is important because in some instances the false statement made in answer to an inquiry about the occupation of the applicant will void the policy. The effect of such false statements in some cases depends on: (1) the materiality of the fact; (2) the character of the occupation, whether or not the risk is increased or decreased; and (3) the intent or knowledge of the applicant at that time.

For the purposes of insurance the occupation of the insured refers to the usual business, trade, or profession in which a person is engaged for a wage or profit. A change of occupation is considered not to have occurred where the insured is injured while performing occasional or temporary duties in another occupation.

Occupation is the key factor in fixing premium charges for accident insurance. Risks are classified according to the degree of risk in the occupation. Some occupational risks are uninsurable. Companies differ in their practice with regards to uninsurable risks. The following are among those occupations which are most generally considered as unsatisfactory for insurance:

Actors, artists, auctioneers, authors, lecturers, motion picture people, musicians, professional dancers, public speakers, vocalists, those whose employment exposes them to direct occupational disease hazards, actresses, book agents, companions, housekeepers, housewives, professional singers, students, traveling salesladies, women working on a commission basis, those whose employment expose them to explosives, commercial pilots, carnival and circus employees, and airplane stewardesses.

See Change of occupation; Nonprorating policy.

Odd Fellows' relief association. Odd Fellows' relief associations are af-

filiated associations with the membership limited to members of the Independent Order of Odd Fellows and organized to insure the members of the order. Such contracts have been held to be contracts of insurance (*Elsey v. Odd Fellows Mutual Life Ass'n,* 142 Mass. 224). Such insurance is regarded as co-operative assessment insurance or regular insurance.

Old age and invalidity insurance. This type of insurance is provided by life insurance and annuities and not by disability insurance. The lifetime noncancelable disability policy might be considered a form of invalidity insurance.

Older ages. Most companies increase the premium at age 50 for health coverage (or reduce indemnities for same premium) and do not renew the policy after age 60 or 65 for either accident or health coverage. Age limits and practices vary with different companies. *See* Age limits.

Operating conditions. The operating conditions of accident and health insurance policies are governed by the standard provisions. Operating conditions are usually distinguished from benefit provisions and additional provisions. *See* Standard provisions.

Optional indemnities. These are specific or fixed amounts of indemnity which the insured, in lieu of any loss of time indemnity, may choose to accept. Usually the optional indemnities are for loss of fingers or toes, dislocations, fractures, and so forth, based upon the average duration of these disabilities.

The insured may elect to take indemnities other than the specific indemnity named in policy: instead of accepting $2,000 for loss of sight the insured may elect to take a weekly income for life.

Optional standard provisions. These provisions are always numbered from 16 to 20 inclusive and are never numbered 1 to 5. They always appear immediately after the required 15 standard provisions. *See* Standard provisions.

Optional surgical benefits. One company explains this provision as follows:

> For an additional premium, you may include a full schedule of Surgical Fees, ranging from $1. to $20. for each $1. of Daily Hospital Indemnity. For example, with $7. Daily Hospital Indemnity, the Surgical Fees will be from $7. to $140. for the various operations listed in the Schedule.

Other insurance. Standard provision No. 17 provides for the prorating of indemnities because of other accident and health insurance carried by the insured concerning which the company has had no written notice. When this standard provision No. 17 is used in a policy, and when there is other similar insurance in force without notice thereof having been given the company, the insurer is liable only for such proportion as the indemnity bears to the total amount of like indemnity in all policies covering such loss.

Under such circumstances, the insured is entitled to the return of such part of the premium paid as shall exceed the pro rata for the indemnity thus determined.

Standard provision No. 17 refers to additional insurance in another company. Standard provision No. 19 refers to other insurance in the same company.

Other insurance in same company. Standard provision No. 19 provides that, if other policies are issued by the same company and the aggregate indemnity is in excess of a stated amount, such excess insurance is void

and premiums paid for such excess shall be returned to the insured. A choice of one of three forms of this provision may be used that are suitably applied to accident, health, or accident and health. This standard provision is used when companies allow local agents to issue policies.

Overinsurance. In effect, a person becomes overinsured whenever the total indemnity under all policies carried by him exceeds his earned income. Good underwriting practice generally considers that a person is overinsured when such indemnities exceed 80 per cent of his earned income.

The two methods by which a company may safeguard itself against overinsurance are as follows:

(a) By including optional provision No. 17, which provides that, in the absence of notice of other insurance covering the same loss, the company shall be liable only for such portion of the indemnity promised as the said indemnity bears to the total amount of like indemnity in all policies covering such loss, and for the return of such part of the premium paid as shall exceed the pro rata for the indemnity thus determined.

(b) By omitting standard provision No. 17 from the policy, and including a condition that would provide that the policy is void in the event that other insurance is purchased subsequently without the written consent of the company.

The agent, in selling a policy, should always advise the applicant to examine other policies carried by him to ascertain if notice of additional insurance is required.

Overweight. *See* Weight.

P

Paralysis indemnity. *See* Permanent total disability—health insurance.

Partial disability. Partial disability is usually defined in the ordinary commercial accident policies as that disability resulting from any injury which does not totally incapacitate or disable the policyholder, but prevents him from performing one or more important daily duties of his occupation. Such a disability may be suffered immediately following the accident or it may develop as a condition following total disability. The partial disability benefit is usually limited to one half of the total disability benefit; and it is generally payable for a limited time such as 26 or 52 weeks. Such a clause is reprinted here for purpose of illustration, but there are many variations in these benefits.

If such injuries, directly and independently of all other causes, shall, within twenty days from the date of accident or immediately following a period of total disability covered under Section A, continuously disable and prevent the insured from performing one or more important daily duties pertaining to his occupation, the company will pay for the period of such disability, but not exceeding twenty-six consecutive weeks, a weekly indemnity of two-fifths of the amount payable for total disability.

A few health insurance policies provide benefits for partial disability, which may be defined for health insurance as inability to perform one half or a certain percentage of the duties of his occupation or one or more important daily duties pertaining to his occupation. In most insurance policies this partial disability refers to a period of disability following total disability. The indemnity provided is some fraction of the full weekly benefit, such as one half. The duration of the payment is generally limited to 20 weeks or to 52 weeks for total and partial disability

combined. The following partial disability clause will serve as an illustration of this indemnity:

> If, following such a period of total disability, the insured shall be continuously and wholly disabled and prevented by bodily disease from performing at least half the work essential to the duties of his occupation, the company will pay, during the period of such partial disability, a weekly indemnity of one-half of the weekly amount provided for total disability; but no payment shall be made for disability of either or both kinds in excess of fifty-two consecutive weeks duration.

The term "partial disability" is explained in most of the Workmen's Compensation laws and frequently a distinction is made between "permanent partial disability" and "temporary partial disability." The loss, for example, of a finger or toe is considered under the laws of Arizona as being "permanent partial disability." Where the incapacity for work resulting from an injury is not total but only partial, the compensation laws provide for a reduction in the amount of the benefits paid. A fractured rib, for example, might result in a period of total incapacity followed by a period of partial disability. *See* Total disability in disability policy.

Passenger aviation rider. Some companies grant aviation coverage by the use of a rider. This rider grants coverage to the insured while riding as a fare-paying passenger in licensed aircraft carriers between definitely established airports. Coverage is not extended for flights over water in excess of 300 miles. The rider excludes from protection the following types of flights: (1) sightseeing; (2) chartered; (3) military or naval. The insured while acting as a pilot is not covered. No double indemnity is given under this rider. The rider is not valid if attached to any policy covering automobile accidents exclusively.

Payment of indemnities. Standard provision No. 9 provides that accidental death and dismemberment losses shall be paid within a specified time after receipt of due proof. In either of the two forms available the company is allowed to set the limit of time, but in no case may the limit exceed 60 days. The company may use a form agreeing to pay indemnities immediately.

Standard provision No. 10 provides for the periodical payments of loss of time indemnity.

Standard provision No. 11 provides for the payment of accidental death indemnities to either the beneficiary or the estate of the insured and all other indemnities to the insured. Two forms are available; the second form is used in a policy in which no benefits are paid except to the insured.

Pedestrian and travel accident policy. *See* Limited accident policy; Newspaper accident policy.

Periodical attendance. Some disability policies require the periodical attendance, usually every seven days, of a physician in order to validate a claim for disability benefits. The reasons for this procedure are: (a) first, and most important, in order that the company may be sure that the insured receives the medical or surgical attention needed for a complete recovery in the shortest possible time; (b) secondly, in order to protect itself against possible unjust and unwarranted claims for disability benefits.

Permanent partial disability in disability policy. *Permanent partial disability* refers to a degree of incapacity immediately following an accident or a period of total disability

which constantly prevents the policyholder from attending to one or more important daily duties pertaining to his occupation for the remainder of his life. Certain dismemberments, such as the loss of a hand or foot, or loss of the sight of an eye by accidental means, are injuries which are usually admitted by the companies to cause permanent partial disability. An example of a permanent partial disability provision follows:

> Should the insured suffer, as a direct result of such injury, the loss of one entire hand by complete severance at or above the wrist, or the loss of one entire foot, by complete severance at or above the ankle, the company will pay indemnity at the rate per month specified in paragraph (1) of Part B for the period during which such loss causes disability resulting in continuous, necessary, and total loss of all business time, and at the termination of such disability will consider such loss to have caused a permanent disability of 25 per cent and will pay the insured, as long as he shall live, monthly indemnity at the rate of 25 per cent of the amount specified in paragraph (1) of Part B.

This same policy, in the event of the irrecoverable loss of the entire sight of one eye as a direct result of an injury, provides for a monthly indemnity of ten per cent of principal sum as long as the insured lives.

As a usual thing, health insurance policies do not make any provision for indemnity for permanent partial disability. A few policies, however, in their schedule of specific losses, provide a benefit for the loss of use of one arm or leg or the sight of one eye, or the loss of speech, or entire loss of hearing. In general, the only other provision for a partial disability benefit is for a period of disability following total disability.

Permanent total disability—accident insurance. For purposes of accident insurance, *permanent total disability* may be defined as a physical condition which, from the time the accident occurs, continuously and completely disables the policyholder and renders him unable to perform any and every duty pertaining to his occupation or any occupation (depending upon the particular wording). It is presumed that such disability will last the remainder of the policyholder's life and should be distinguished from temporary disability, from which the assured is expected to recover in a short time. Examples of such disabilities are: the loss of both hands, both feet, or the sight of both eyes. Under most accident policies, a schedule of fixed indemnities for such specific losses is to be found in the policy. In some policies, the insured suffering the loss of both hands, feet, or eyes is permitted to choose (within a certain period, usually 90 days after the date of the loss) between the payment of the fixed indemnity stated in the policy for this loss or the payment of the specified weekly indemnity for life.

The duration of the weekly benefit is sometimes limited, and in other cases the amount of the benefit is limited if the disability lasts beyond a specified time. The more common provision in the accident policy, however, is that for the first year of disability the benefit is contingent upon the inability of the policyholder to engage in his occupation; but, after the expiration of one year of such disability, the continuance of the benefit is contingent upon the inability of the assured to engage in any occupation. *See* Accident insurance.

Permanent total disability—health insurance. Some health insurance policies make provision for a life indemnity if the total disability extends

beyond 52 weeks. The usual permanent total disability provisions, however, are for the irrevocable loss of sight of both eyes or loss of use of hands and feet or one hand and one foot as a result of disease. Then, again, other policies include loss of speech and loss of hearing of both ears in their schedule of specific losses. For example, blindness or paralysis may cause the policyholder to be totally disabled for the remainder of his life.

In some policies, the indemnity payment is dependent upon the inability of the assured "to transact all his business duties" or to perform "any and every duty pertaining to his occupation"; in other contracts, the benefit payment is contingent upon the assured's being "continuously disabled and prevented from engaging in any occupation for wage or profit." The permanent total disability indemnity may be stated in terms of the principal sum or the weekly benefit.

Personal accident insurance. The word *personal* signifies that the policy insures a designated individual, as distinguished from group disability insurance. Personal accident insurance pays its benefits in addition to whatever the insured may receive under group or compensation insurance.

Generally speaking, there are two kinds of personal accident policies, "commercial" and "limited." The "limited," as the name implies, are written on a limited basis, in connection with railroad tickets, newspaper subscriptions, and the like.

See Accident insurance.

Personal injury. *See* Accident insurance; Accidental means; Excepted causes of accidental injury or death; External and violent means of injury.

Physical condition of insured. *See,* in Section One, Health of insured.

Physical defect of insured. Personal insurance in all forms is written on the assumption that the individual covered will be a normal person. In personal accident insurance, for example, the prospect in replying to certain questions must give information about the existence of impairments, if any. If the applicant suffers from some physical defect or infirmity which would make him not an average or normal risk, the insurance company will either charge the applicant a higher premium rate or issue a special type of policy.

Obviously, it is impossible to list here all the various physical defects that may exist. In general, risks considered impaired from an insurance viewpoint consist of the following: (1) individuals who have an existing physical defect or some form of ailment; and (2) individuals with a past history of serious illness or injury. Some of the more common types of physical defects for accident insurance are: (1) impaired vision; (2) impaired hearing; (3) loss of limbs, fingers, or toes; (4) deformed or shortened limbs; (5) hernia.

Insurance companies writing risks with impairments or physical defects require certain particular information as follows: (1) nature and date of injury or illness; (2) duration of disability; (3) present physical condition; (4) whether or not a complete recovery has been experienced; (5) if maimed or deformed, a description of such impairment fully explained; (6) if the applicant was insured at the time of the injury or illness, names of companies and amounts of indemnities paid. *See,* in Section One, Health of insured; Substandard insurance.

Physical examination. Some companies provide that they shall have the

right and opportunity to examine the person of the insured when and so often as it may reasonably require during pendency of a claim; also the right and opportunity to make an autopsy in case of death. *See* Medical examination; Autopsy.

Physical hazard. In disability policies, the physical hazard refers to the history of former disabilities of the policyholder as well as the present condition of his health and the soundness of body together with any impairments that may exist. In various forms of property insurance, the physical hazard refers to the actual condition of the property or merchandise to be insured. In fire insurance, for example, the physical hazard of the risk takes into consideration such factors as the construction of the building, the character of the occupancy, and the exposure involved.

Physicians' services. The usual physicians' service or medical attention clause provides that, if no claim is made for disability or other benefits, the insured shall be reimbursed for medical expense in an amount not to exceed one week's indemnity in a weekly indemnity policy nor one fourth of one month's indemnity in a monthly indemnity policy.

Pilots policy. *See* Aviation pilot policies.

Pimple pricking. *See* Hair plucking.

Poison as a cause of injury or death. Accident policies often specify that injuries resulting from taking poison are not covered. This has been held applicable to the accidental as well as intentional taking of poison; although some courts have held such an exclusion not applicable to poison taken accidentally. Some courts have ruled this exception applicable to death caused by medicine containing poison; others have held it not so applicable. The exclusion has been construed as not being applicable to death caused by general remedies or eating food containing hard particles.

Other questions arise in the case of poison ivy (held not excepted by this exclusion) or poison from the sting of a venomous insect, the question being whether or not the exception is only applicable to poison taken internally. Generally, blood poisoning is not held as death from poison; however, this depends on the particular policy provisions. In some cases where exclusions are made for contact with poisonous substances, it is not necessary for the poison to be taken internally, or the contact to be voluntary, for such an exception to be applicable.

Under a policy excepting liability for injury resulting directly or indirectly or accidentally from poison or infection, it has been held that the insurer is liable where an injury (covered by the policy) was suffered and infection later set in, the exclusion being directed to the time of the accident.

Policy changes. Policy changes can be made only by endorsements or riders in writing, approved by an executive officer of the company, and such endorsements attached to the policy. *See* Agent's power to waive; Waiver.

Policy fee. This is an amount charged in addition to the annual premium for the issuance of a policy. It is usually payable only with the initial premium. The policy fee is frequently charged in connection with accident and health insurance, but is seldom charged in connection with any other form of casualty insurance.

Preliminary notice. This is a notice informing the insurance company that the insured is injured or sick and wishes to make a claim.

Premium factors. The occupation, age, and sex of the applicant and the

amount of insurance determine the premium for accident and health insurance. In the majority of policies the premium may be changed at renewal date by the company. If the insured changes his occupation, a premium adjustment should be made as of the date of the change if the occupation is either more or less hazardous than the one in which the insured was previously engaged.

Previous accident or disease. In the application for life, accident, and health insurance, the applicant must furnish information concerning previous accidents or diseases. This information is of great value because it helps the medical examiner or the underwriter to judge whether or not the risk is acceptable. Accidents or illnesses that produce a permanent physical defect or infirmity make the risk below normal. Certain forms of disability make the risk predisposed to other accidents or disability. Some of these are: hernia; injuries to knee joints or elbows; amputation of (or loss of use of) legs, arms, hands, or feet; impairment of vision; impairment of hearing; fainting spells, and so forth. Such kinds of disability must be guarded against by the underwriter of disability insurance. Types of diseases likely to reappear are bronchial troubles, asthma, dysentery, gout, and rheumatism. Some of the diseases likely to produce other aïlments are pneumonia, pleurisy, bronchitis, and influenza. These lists of infirmities, though in no sense exhaustive, indicate emphatically the importance of securing this information in the application and the necessity for extreme care on the part of the underwriter handling this type of insurance business. *See,* in Section One, Health of insured.

Primary insurance. Accident and health insurance is sometimes called primary insurance because it protects the income that pays the premium on all other kinds of insurance.

Principal sum. *Principal sum* refers to the amount payable for loss of life by accident. The *capital sum* refers to the amount payable for specific losses such as both feet, both hands or both eyes. In some policies the amounts payable for loss of both hands, both feet, both eyes, and so forth are based on the principal sum. These benefits are also described as *specific benefits*. The benefits payable for specific losses may be described as follows:

Life	Principal sum
Both hands Both feet Sight of both eyes Hand and foot Hand or foot and sight of one eye	Capital sum
Hand Foot	One-half the principal sum
Sight of one eye	One-third the principal sum
Thumb and index finger	One-fourth the principal sum

Prior accident. The company is not liable for a loss or disability caused by accident or disease occurring or originating prior to the issuance of the policy.

Private conveyance accident coverage. Some accident policies provide that the double indemnity provision applies while the insured is "in or on any private conveyance excluding bicycle, motorcycle, and saddle horse." *See* Accident insurance; Multiple indemnity provision of accident policy.

Private fliers policy. *See* Aviation pilot policies.

Probationary period—health insurance. In many health insurance policies, a provision is made that no liability exists for "disease beginning within 15 days from noon of the date of this policy." The policy covers only diseases that are contracted during the

term of the policy, and such a period is excluded so that disability indemnity may not be claimed for some disease that was contracted before the insurance. Such a period should be distinguished from the usual waiting period found in many health policies, where the first part of each disability is not covered, for, in this probationary period, only the first 15 days of the policy year are excluded.

A similar provision is applicable where there has been a default in the payment of the premium, the company being liable only for sickness beginning more than ten days after the date of the acceptance of such premium by the company. *See* Standard provisions law—disability policies; Waiting period accident and health insurance.

Prohibited risks. Most insurance companies issue what are called *prohibited lists,* which refer to classes of risks upon which experience has proved to be unprofitable. A prohibited list of any particular company usually consists of those risks which the company does not want because the company is unable to make money on such business. A prohibited list will vary, of course, with the nature of the business, the standards of a company, underwriting practices, and so forth. The following is a partial list of prohibited occupations for which one company will not write accident insurance on women: artists, authors, book agents, canvassers, dressmakers, lecturers, musicians, music teachers, professional dancers, social secretaries, vocal teachers, and waitresses. *See* Accident classification manual; Occupational hazard.

Promises of the company. The promises of the company are contained in the insuring agreement, every word of which is important and has been passed on by the courts a number of times. The insuring clauses of most accident policies are alike; a considerable difference in the coverage is effected by slight changes in the wording. A widely used wording, is as follows:

> "The ...... hereby insures .... against loss resulting directly and independently of all other causes from bodily injuries sustained during the term of this policy solely through accidental means."

The two most important phrases in that clause are *accidental means* and *resulting directly and independently of all other causes.*

Another phrase equally as important, but not appearing in the insuring agreement, is the one which defines *total disability.*

Proof of loss. Written proof covering the occurrence of the accident or illness and the character and extent of the loss for which claim is made, usually submitted on forms furnished by the company, is known as *proof of loss.* The claimant shall be deemed to have complied with all requirements if he shall furnish written proof covering the loss occurrence, character, and extent of loss for which claim is made.

Standard provision No. 7 may be used in any one of three forms covering accident, health, or accident and health. In the event of accidental death or dismemberment, proof of loss must be furnished by the claimant within 90 days after the date of the loss for which claim is made. In the event of disability, proof of loss must be furnished within 90 days after the termination of the period of disability for which the company is liable.

Standard provision No. 8 provides that the company may make a medical examination of the claimant and

may perform an autopsy in case of death.

Standard provision No. 9 provides that accidental death and dismemberment losses shall be paid within a specified time after receipt of due proof. The provision may be in either one of two forms. In either form the company is allowed to set the limit of time, but in no case may the limit exceed 60 days.

Proration. Standard provision No. 17 provides for the proration of indemnities because of other disability insurance carried by the insured concerning which the company has had no written notice. The company is liable for such proportion as the indemnity bears to the total amount of like indemnity on all policies covering such loss. The insured is entitled to a pro rata return of premium. *See* Nonprorating policy.

Protective conditions. *See* Additional provisions.

Protracted disability. The term *protracted disability* is used in some accident policies referring to a disability that lasts longer than a certain number of weeks. In some policies, a novel provision is made that, if the disability continues for more than 52 weeks, the indemnity for each additional 52 weeks of disability will be increased ten per cent until 50 per cent of the regular weekly benefit has been added. A more common practice, however, is the payment of a reduced benefit after a certain duration of the disability.

Pyogenic infection. Some companies use a pyogenic rider that reads: "subject otherwise to all its conditions and provisions, this policy covers as an accident, loss or disability as the result of pyogenic infection due to external inoculation through accidental wounds. Pyogenic infection is 'pus forming infection.' "

Q

Quadruple indemnity provision of accident policy. *See* Multiple indemnity provision of accident policy.

Quarantine indemnity. In a few health insurance policies, an indemnity is provided if the insured is unable to attend to his business duties as a result of a quarantine. Whenever such indemnity is incorporated in a health insurance policy, it provides substantially as follows:

> If the insured, by reason of exposure to infectious or contagious diseases, shall be quarantined and, as a result of such quarantine, shall be necessarily and continuously confined within doors by order of a duly authorized health officer, or other official authority competent thereto, and shall be prevented from performing any and every duty pertaining to his occupation, while not claiming any other indemnity, the company will pay the insured, while so confined but not to exceed eight weeks, the amount of sickness indemnity provided herein.

R

Race. *See* Nationality.

Railway ticket insurance. *See* Ticket accident policy.

Recurring disease. *See* Previous accident or disease.

Reimbursement insurance. Reimbursement insurance indemnifies the insured for actual expense incurred by medical and surgical treatment, hospitalization, Xrays, and laboratory fees. A reimbursement policy may insure only such expense incurred as the result of a bodily injury due to an accident or, for a higher premium cost, will also insure such expense resulting from sickness.

One company writes as follows on the reimbursement coverage:

> The actual expenses incurred are paid up to $500 for hospital, nurses, medical

and surgical expenses resulting from any accident covered by the policy.

Issued to employed or unemployed risks of good moral character and physically and mentally sound, male or female, between ages of 6 and 70 years.

This policy is especially suited for unemployed persons, such as young children or women of any age within the limits given.

Reinstatement. Accident and health policies usually provide that within a specified period of time after the policy has lapsed for nonpayment of premium it may again be placed in effect, subject to evidence of insurability satisfactory to the company. Standard provision No. 3 provides that the acceptance of a past due premium reinstates for accident benefits at once and for sickness benefits beginning ten days thereafter. This provision may be made in any one of three forms, arranged to cover policies of accident only, health only, or both accident and health.

Renewable accident policy. *See* Noncancelable accident and health policy.

Renewal. Disability policies are renewed by use of a renewal receipt, which is completed, executed, and delivered to the insured upon payment of the renewal premium, thus continuing his policy in effect for the term and to the date specified in the receipt.

Requirements of insured. Standard provisions Nos. 4 to 11 inclusively set forth exactly what it is necessary for the insured to do in order to collect benefits under a disability policy. They are for the policyholder's guidance and information.

These requirements are very simple and may be reduced to few words: (a) Notice in writing must be given the company within 20 days after accident or within ten days after sickness begins. (b) This notice may be given to the home office or to any agent—and if given to an agent it becomes his duty to see that it is immediately forwarded to the home office. Notice should include date of disability, diagnosis, and doctor's name. (c) Proof must be filed on forms furnished by the company, which will set forth the facts on which the amount of benefit due may be accurately computed.

Resident or in-patient. A resident or in-patient case is described as follows:

Upon recommendation or orders of a physician or surgeon that hospitalization is necessary and the patient admitted to a hospital as resident, distinguished from a case received for emergency treatment or examination and not admitted as a patient or resident.

Risks. One company has the following to say about risks:

The qualifications of a good risk are physical fitness, and moral and financial responsibility. Applicants must be in sound health, able to read and write English, and not given to fast or reckless living.

Risks classified in the Manual as A. B. C. and D. are the only ones which may be written without reference to the Home Office. Class E. risk may be considered for limited amounts when submitted to the Home Office. This also applies to the applications of persons with physical impairments, or with histories of serious injuries or illnesses.

Seasonable employment frequently has prolonged periods during which a person is engaged in no occupation for wage or profit. This situation tends to encourage fictitious claims, or where a legitimate claim for loss of time exists and overlaps into the unemployment period it tends to encourage malingering. A person without an earned income is pre-

sumed to be uninsurable for accident and health insurance.

S

Sanatorium indemnity. Some disability policies do not include sanatoriums in the regular hospital indemnity; other policies specify that an indemnity is payable "if the insured is removed to a regular hospital or sanatorium." *See* Accident insurance; Health insurance; Hospital indemnity—health insurance.

Schedule of accident insurance. *See* Dismemberment, loss of sight, or death indemnity.

Schedule of elective indemnities. *See* Elective indemnities—accident insurance.

Schedule of surgical operation indemnity. *See* Surgical operation indemnity.

Self-inflicted injury. *See* Intentional injury.

Semi-commercial policies. These policies follow the general pattern of commercial policies. Usually the policies are for lower limits and in smaller amounts than the commercial forms. Quarterly premiums are usually paid on these policies.

Septicemia indemnity. *See* Blood poisoning indemnity.

Sickness. *Sickness* is generally used to indicate that one is ill, in bad health, or in a diseased or weakened condition. As defined in the usual health insurance policy *sickness* means such disability or incapacity as will result in continuous total loss of working time, or will prevent the assured from performing any and every duty of his occupation, and, sometimes, the qualification is added that it must confine the assured to the house. *See* Health insurance.

Sickness provisions of life insurance. *See* Disability provisions of life insurance.

Sight. *See* Loss of sight.

Solely by accidental means. *See* Accident insurance.

Somnambulism. A few accident insurance policies specify that "somnambulism shall be deemed a bodily injury and covered hereunder." One affected with somnambulism walks and performs actions during sleep.

Sound health. *See,* in Section One, Health of insured.

Special features. These are benefits for losses other than those covered by the principal sum and loss of time indemnity; for example, optional indemnity, hospital benefits, surgical benefits, and the like.

Special indemnities. Some companies have a section in their policies entitled "Special indemnities." Under the terms of this policy provision a schedule is printed in the policy showing lump sum payments for three basic losses: (1) complete fracture of bones; (2) complete dislocation; and (3) loss by removal of toes or fingers. Specified sums are listed opposite each loss in this schedule, but not more than one of these indemnities is payable for injuries resulting from one accident.

Specific indemnity. Some companies provide for what is called a *specific indemnity.* Such a policy provision reads:

> If weekly indemnity is provided under this policy the Insured, if he so elect in writing within twenty days after the date of accident, may take, in lieu of weekly indemnity as may be provided in Sections 3 and 4, indemnity in one sum according to the following schedule if the injury is one set forth in said schedule, but not more than one specific indemnity shall be paid for injuries resulting from one accident.

Specific loss. *See* Dismemberment, loss of sight, or death indemnity; Per-

manent total disability—health insurance.

Specified diseases. *See* Limited health policy.

Specified medical indemnity. Some policies contain a provision of this nature. The following is a typical example:

a. If weekly indemnity is provided under this policy and if such injuries, directly and independently of all other causes, shall require the Insured to be confined in a hospital or be necessarily attended by a graduate nurse within ninety days after the date of accident, the Company will pay, in addition to any other indemnity to which the Insured may be entitled, fifty per cent. of the weekly indemnity hereinbefore specified for the period of time during which he shall be a patient resident in the hospital or shall necessarily employ the full time service of such a nurse, but not exceeding twenty weeks for either or both combined.

b. If weekly indemnity is provided under this policy and if the Insured shall sustain injuries covered by this policy solely by reason of which any operation or operations named in the following schedule shall be performed by a surgeon within ninety days after the date of accident, the Company will pay the largest amount provided in said schedule for any of the operations so performed in addition to other indemnity hereinbefore provided.

Standard provisions law—disability policies. The standard provisions law became effective on January 1, 1914, in several states. The act provides for a standardization of 20 provisions to be incorporated in all accident and health insurance policies issued after that date.

Some of the provisions are optional and may be omitted from the policies. These standard provisions require some uniformity in the policy regarding the rights of the assured in the event of a loss, but leave the matter of the coverage entirely to the discretion of the insurance companies. In brief, the standard provision law specifies that:

(a) All policy forms must receive the approval of the State Insurance Commissioner.

(b) A policy must contain a statement of the amount of the premium.

(c) It must give the dates on which the insurance takes effect and terminates.

(d) It must not purport to insure more than one person.

(e) Each portion and all endorsements or attached papers must be printed in not less than ten point type.

(f) The policy must contain a brief description thereof printed on the first page in not less than fourteen point type.

(g) Exceptions to the policy must be plainly printed with the same prominence as the benefits to which they apply.

(h) Discrimination between individuals of the same class in premiums, or rates, or benefits is prohibited.

(i) Any portion of the policy reducing indemnities must be printed in bold face type and with greater prominence than any other portion of the policy.

(j) Each policy must contain fifteen Standard Provisions and may contain five Optional Standard Provisions.

The 15 required standard provisions deal with the following subjects: (1) change of occupation; (2) changes in policy; (3) reinstatement of policy; (4) time of notice of claim; (5) sufficiency of notice; (6) form for proof of loss; (7) time for filing proof of loss; (8) medical examination or autopsy; (9) payment of indemnities; (10) indemnity payable in periodical installments; (11) to whom indemnities are payable; (12) cancellation by insured; (13) rights of the beneficiary; (14) limitation of time for bringing suit; (15) limitations controlled by statute.

See Adjusting the insurance; Age limits; Assignments; Autopsy; Cancellation; Claims; Change of occupa-

tion; Default; Examination; Entirety of contract; Final time limit for filing proof of loss; Legal notice; Local issue of policies; Medical examination; Nonprorating policy; Notice of claim; Other insurance; Other insurance in same company; Payment of indemnities; Proof of loss; Proration; Reinstatement; Statements in application; State statutes; Suits against company; Unpaid premiums; Voidance; Waiver.

Standing on platform of moving conveyance. *See* Entering or leaving moving conveyance.

Statements in application. The statements made in the application are a part of the policy contract and affect its validity.

Standard provision No. 2 covers this subject and reads:

> No statement made by the applicant for insurance not included herein shall avoid the policy or be used in any legal proceeding hereunder. No agent has authority to change this policy or to waive any of its provisions. No change in this policy shall be valid unless approved by an executive officer of the Company and such approval be endorsed hereon.

See Voidance.

State statutes. Standard provision No. 15 provides that the time limitations specified in the policy may be extended or limited to agree with the law of the state in which the policy is issued.

Stop loss. A *stop loss* is the right of the company to place a limit on the company's liability for permanent and recurring loss. This right exists under the aggregate and maximum-disability types of noncancelable policies. It does not exist in the lifetime indemnity forms.

Sufficiency of notice. *See* Legal notice.

Suicide. Suicide is not covered under accident and health policies.

Suits against company. Standard provision No. 14 covers this topic and says:

> No action at law or in equity shall be brought to recover on this policy prior to the expiration of sixty days after proof of loss has been filed in accordance with the requirements of this policy, nor shall such action be brought at all unless brought within two years from the expiration of the time within which proof of loss is required by the policy.

A suit to recover on a disability policy is not to be brought sooner than 60 days after filing proof of loss, nor later than two years after expiration of the time within which proof of loss is required by the policy. The company is given ample time to investigate a claim after filing before court procedure can be begun and is also protected against suits which might be brought long after material witnesses had died or disappeared. Whenever a state has a specific statute governing time within which suits may be filed, the statute and not standard provision No. 14 prevails.

Sunstroke. Sunstroke, in a strict sense, has been regarded as a disease. In some cases, it has not been considered an accident unless caused by some concurring accident. Some accident insurance policies specify that "sunstroke suffered through accidental means shall be deemed a bodily injury within the meaning of this policy."

In the case where a distance was misrepresented to a person dying from sunstroke in a desert, it was considered covered by a policy insuring against injury or death from accidental means. In other cases, sunstroke suffered in the course of employment has been held covered under the policy provisions. If the policy covers sunstroke, it is to be

considered as a form of personal injury. In a Kansas case, it was held that, where a policy covers sunstroke (unless limited by the policy), it refers to a condition produced by any heat, solar or artificial, such as heat from a furnace. In this connection, a Georgia case under an accident policy covering death from sunstroke arising from external, violent, and accidental means held that death of a fireman in consequence of exposure to the high temperature in his occupation was not covered.

Surgeon's fees. Many forms of accident and health policies include a schedule of *surgeon's fees* setting forth the amount that will be paid in addition to all other benefits when a surgical operation is necessary as the result of either an accident or ailment. If bodily injuries sustained by the insured are of such a nature that they do not disable him or entitle him to any other indemnity, but require medical attendance or surgical treatment, he is indemnified by the payment of either a percentage of the regular weekly indemnity, or a flat sum.

Surgical indemnities. *Surgical indemnities* are specific amounts provided for certain operations, including the reduction of certain fractures, and are paid in addition to weekly indemnity. These are fixed indemnities for certain surgical operations specified in the policy. Usually the indemnity is payable only when the operation occurs within 90 days from the commencement of disability.

Surgical operation. Applicants for life, accident, and health insurance are required to make statements regarding operations they have undergone. False statements of these facts have been held sufficient to void the contract.

Surgical operation indemnity. Some policies provide that a specified amount will be paid, in addition to other indemnities provided in the policy, for surgical operations. The policy contains a schedule setting forth the types of operations for which indemnities will be paid, and the amount payable for each type of operation. The amount payable stated in the schedule is usually based on the per unit indemnity of $25 per week. Thus, if $100 is specified in the schedule as the amount payable for cutting into the abdominal cavity, $200 would be payable if the weekly indemnity of the policy is $50. A further condition in general use provides that the operation must occur within 90 days from the date of the accident or within 90 days of commencement of disability from sickness.

Health insurance policies provide lump sum payments scheduled according to the weekly benefit and the kind of operation, if the policyholder, solely as the result of disease, must undergo one of the specified operations during a period of total disability. The stipulation is generally made that such an operation must be performed within a certain period from the beginning of the disability, such as 90 days. The schedule of operations and the indemnities payable vary somewhat between the different companies issuing health insurance policies.

Surgical treatment indemnity. *See* Medical attendance indemnity.

T

Temporary partial disability. In connection with accident insurance, *temporary partial disability* refers to a degree of incapacity immediately following an accident or a period of total disability, which prevents the insured from attending to one or more of his usual duties for a certain

time, but does not permanently handicap him. For example, a man may suffer a dislocated wrist, and be partially disabled for a time, but he will not be permanently disabled. *See* Accident insurance; Health insurance.

Temporary total disability. In connection with accident insurance, *temporary total disability* may be defined as that disability immediately following an accident (or occurring within a specified number of days after the accident) which wholly and continuously incapacitates the insured and prevents him from performing any and every duty pertaining to his occupation (specifications regarding the occupation may vary) but which is not of a permanent nature. For example, a fractured thigh may cause total disability for several weeks, but it does not represent a cause for permanent disability. *See* Accident insurance; Health insurance; Total disability in disability policy.

Term. The period of time for which the premium has been paid and during which the insurance is in force is known as the *term* in accident and health insurance. In commercial policies, it is usually annual, semiannual, or quarterly periods; in industrial policies it is usually monthly or weekly.

Territorial limits. *See* Geographical limitations.

Ticket accident policy. Ticket accident policies are issued to cover against death or injury arising from accidental means for short periods, such as one day, two days, a week, a month, or three months. Such policies are for sale at railway stations and are purchased by travelers to cover for the period of the trip. At one time, these tickets were limited to cover only travel accidents, but at the present time they offer a broader coverage, although they are designed mainly to cover hazards of traveling, since they may be obtained for just the period of the trip.

Only one ticket may be issued to an individual to cover the same days. The tickets are to be issued to men and women engaged in an occupation, but if tickets are desired by individuals without any occupation, only the death or dismemberment indemnity is payable. Usually, the tickets are not issued to persons under 18 or over 70 years of age. Undesirable risks for accident tickets are persons in poor health, cripples, insane persons, or those engaged in dangerous enterprises, such as hunting trips, aviation, racing, and so forth.

See Accident insurance.

Time limitations. *See* State statutes.

Time limit for claim. The notification of accidental injury, dismemberment, or death must be made to the company as soon as reasonably possible, but in any event not later than the number of days specified in the policy.

Standard form No. 4 covers this point and provides:

> Written notice of injury on which claim may be based must be given to the Company within twenty days after the date of the accident causing such injury. In event of accidental death immediate notice thereof must be given to the Company.

Time limit for death payment. There is a time limit in an accident policy during which the indemnity for loss of life will be paid following an accidental injury. The length of time varies with different companies. Most companies provide that death must occur within 90 days of the accidental injury unless, following the accidental injury, disability has been total and continuous, in which case the principal sum may be paid for death occurring within 200 weeks.

Total disability in disability policy. In accident and health policies, *total disability* refers to total incapacity to work and not to total loss of income. *Total disability* has been defined by various courts as not meaning absolute helplessness, or even absolute physical inability to do any of the duties pertaining to the assured's business, such as a few occasional tasks, but that he is unable to perform a substantial part of his duties. For example, a physician may be considered totally disabled, though he may examine and prescribe for a few patients while he is confined to his bed. Unless otherwise provided by the policy, the fact that a person goes to his place of business but is not able to do any work usually does not mean that he is not totally disabled. Also it has been asserted that the insured is totally disabled if he could only attend to his regular duties with great pain. On the other hand, it was held that an employee who was injured while doing manual labor and, because of such injury, was employed as an overseer at practically the same wage was not totally disabled.

Accident insurance policies vary with reference to the definition of total disability. In some instances, the payment of the benefit is contingent upon the fact that the assured is "unable to engage in his occupation," or that he is "incapable of performing any and every duty of his occupation," or that he is "physically unable to follow any gainful occupation," or that the assured suffers "continuous, necessary and total loss of all business time."

Obviously, these qualifications in the definition of total disability are very important points to consider. The following is an example of a total disability benefit provision:

If such injury shall not result in any one of the specific losses enumerated in Section 1, but shall, from the date of the accident, immediately, continuously, and totally disable and prevent the insured from performing any and every duty pertaining to his occupation, the company will pay for the period of such disability an indemnity per week of .... dollars ($.......).

The total disability provisions of accident insurance policies are often subject to various limitations: (1) total disability must begin at the time of the accident or within a specified number of days, such as 20, 30, or 90 days following the accident; (2) the amount of the total disability benefit is limited to a percentage of the average weekly earnings of the policyholder; (3) many contracts agree to pay the total disability benefit for the duration of such disability, but others pay this full total disability benefit for a limited time (52 weeks, 200 weeks, and so forth), or only so long as the policyholder is under the care of a regular physician. Another practice is to pay the full benefit for the agreed time, and then, if the disability lasts beyond this period, a smaller benefit for life or the duration of the disability.

For purposes of health insurance, total disability is customarily defined with reference to the insured's ability to follow his occupation (or any occupation, in some cases). House confinement may be used as a test for total disability. The temporary total disability clause provides the specified weekly payment for a limited number of weeks, such as 50 or 100. Such a clause may stipulate that "if such sickness shall not result in any one of the specific losses enumerated but shall continuously and totally disable and prevent the insured from performing any and every duty pertaining to his occupa-

tion and shall necessitate treatment by a legally qualified physician, the company will pay, for the period of such disability and treatment, not exceeding 52 consecutive weeks, an indemnity per week of ...... dollars." *See* Accident insurance; Health insurance; House-confinement health policy.

Trade union sick and accident benefit. Many of the trade unions provide sick and accident benefits for their members. These benefits may provide for temporary disability, permanent disability, and death. Death benefits were the earliest in development and are probably the most common payments made. Old age benefits are also paid by a number of trade unions.

During World War II, an increased development took place in the establishment of union health and welfare plans. This growth was due partly to the wage stabilization program. In many instances welfare payments were made in lieu of wage increases. Partly the current interest and growth has been a result of a change in the viewpoint of union leaders. Health-benefit and welfare programs have been found to be effective in union organization and maintenance of membership activities. The increasing concern of workers in general concerning social security, such as security against illness, unemployment, accident, old age, and death, no doubt has stimulated an interest in union welfare plans. Early in 1947 the United States Bureau of Labor Statistics (Bulletin No. 900, March 5, 1947) estimated that approximately 1,250,000 workers were covered by some kind of welfare plan.

Aside from the growth of union welfare funds in recent years, the important phases of this type of insurance are: (1) kinds of health and welfare program administrative control; (2) methods of financing; and (3) types of benefits paid. The types of welfare plans in operation today vary with the conditions in a specific industry and the viewpoint of the unions and management. The three leading types of welfare plans are: (1) those handled solely by the union; (2) programs administered jointly by the union and management; and (3) plans administered by a private insurance company.

Welfare funds are financed in no less than four different ways. In some cases the employer assumes full financial responsibility. In other cases the program is financed entirely by deductions from the workers' earnings. In a third situation the program is financed by contributions from both the employees and the employer. A fourth method of financing is illustrated by the case of the soft coal industry "welfare and retirement fund," which is to be raised by levying a tax on each ton of coal produced. Regardless of the method of financing, a problem of considerable concern where union welfare funds are concerned, management of the fund may be an exclusive prerogative of either the company or the union, or the management may be carried out jointly.

Benefits granted under union welfare funds vary in type, amount, and duration. Some funds provide no less than 10 types of benefits: (1) cash payments because of illness; (2) hospitalization; (3) surgical benefits; (4) medical service; (5) maternity assistance; (6) eye treatment; (7) tuberculosis benefit; (8) vacation pay; (9) retirement pension; and (10) death benefit. Of especial interest from the standpoint of benefits granted is the union health center. Under the St. Louis plan, for example, a complete medical service is given to

union members and their families, in the home, hospital, or clinic. Other union health centers offer not only clinic services but also serve as a health education center.

As of July, 1947, most of the workers covered by union welfare plans are in the clothing, textile, and coal industries. The idea is spreading, however, to many other industries. During World War II, the inclusion of health-benefit plans in union agreements gained headway. The United States Bureau of Labor Statistics is of the opinion that there is no doubt "that welfare funds and health benefits will play an increasingly important role in future contract negotiations." For more detailed information, as well as a selected list of references on union health and welfare plans, see Bulletin No. 900 of the United States Bureau of Labor Statistics, March 5, 1947.

Travel and pedestrian accident insurance. *See* Limited accident policy; Newspaper accident policy.

Traveler's accident ticket. *See* Ticket accident policy.

Travel indemnity. In accident insurance, the double or multiple provisions of the policy are sometimes called *travel indemnities.* See Multiple indemnity provision of accident policy.

Triple indemnity provision of accident policy. *See* Multiple indemnity provision of accident policy.

U

Uncancelable accident policy. *See* Noncancelable accident and health policy.

Uncancelable clause. *See* Noncancelable accident and health policy.

Underweight. *See* Weight.

Undue exertion. *See* Voluntary overexertion.

Unexpected events. There is a difference between accidental means and unexpected events. The distinction is one between cause and effect. Events may be unusual or unexpected but not accidental. In this group of unexpected events are such occurrences as heat stroke, freezing, hernia, and use of anesthetics.

Unpaid premiums. Standard provision No. 18 provides that any due and unpaid premiums may be deducted from a claim payment.

Usual policy. The laws of many states provide no legal standard form of policy for accident and health insurance, casualty insurance, or surety bonds. Wherever the term *usual policy* or *standard policy* is referred to, it should be interpreted to describe a uniform type of the particular policy contract under discussion that is most generally used by a majority of the insurance companies engaging in that classification of insurance.

V

Valid hospital claim. A valid hospital claim is established by a policyholder by being a patient confined in a regularly incorporated or general hospital at the recommendation of a legally qualified physician or surgeon.

Vexatious delay. This refers to the unreasonable length of time an insured may take in giving notice of claim. Some states have laws which impose penalties for vexatious delay.

Violation of law. *See,* in Section One, Selection of risks.

Violent means of injury. *See* Accidental means; External and violent means of injury.

Visible signs of injury. *See* External and visible signs of injury.

Vis major. An accident similar to an *act of God,* but in some cases having

a wider meaning, is often referred to by the term *vis major*. An accident without the intervention of man, which could not have been prevented by human care or prudence, comes within this class. The usual rule is that no one is responsible for an accident arising from vis major. *See* Accidental means.

Voidance. If an insurance company wishes to void a policy, it is restricted to statements in the policy contract, which includes the application. Voidance is governed by standard provision No. 2, which provides that no statement of the policyholder not appearing in the application will void the policy or be used in any legal proceedings.

Voluntary exposure to obvious risk or unnecessary danger. In order to prevent recovery against injuries resulting from the negligence of the insured, under an accident policy, it is often specified that liability for injuries or death caused by voluntary exposure to obvious risk or unnecessary danger is not covered. Mere negligence does not amount to such voluntary exposure within the meaning of this clause, although exposure arising from negligence is not covered.

In order to amount to such an exception, the exposure must be more than accidental; the insured must have had such knowledge of the existing conditions or such knowledge of the consequences as would cause an ordinarily careful man to appreciate the danger. "Exposure to obvious risk" refers to the insured's exposing himself to the risk of an injury that is obvious to him at the time he exposes himself. It is maintained that the injury cannot be considered as being caused by voluntary exposure to needless peril, if the actions of the insured are the same as those of an ordinarily careful person. Such acts, to constitute an exception, must be gross negligence or exposure to hazards that are not common ones assumed in everyday life.

It has been pointed out that the fact that the act was voluntary does not mean that the danger was voluntary. Also, the purpose for which there was exposure to the danger is important. According to its use in the policy, this exception has been interpreted to mean a voluntary assumption of the hazard resulting from this known danger. However, assuming that the hazards connected with the occupation of the insured do not amount to such voluntary exposure to unnecessary danger, the company is not relieved from liability, unless the death or injury was due to the unnecessary exposure. The following, under particular circumstances, have been considered voluntary exposure to unnecessary danger: steeplechase riding; lowering oneself from window by bed ticking to escape police; crossing flooded river in rowboat; walking on railroad track; crossing track immediately in front of train moving at a rapid speed.

Voluntary fire department policy. Some companies issue a blanket accident policy for voluntary fire departments. This policy insures all of the volunteer members in good standing against bodily injuries suffered through accidental means while on duty, including injuries sustained while going to or returning from fires, at fire drills, parades or at tests or trials of any fire-fighting apparatus. Any employed members receiving regular salaries for their duties as firemen are insured only while on duty at fires, while answering alarms, or directly returning from fires.

The policy usually provides principal sum payments, total disability,

nondisabling medical, and hospital indemnity.

Voluntary overexertion. *Voluntary overexertion* means conscious or intentional overexertion, negligent and careless disregard of the results of severe physical actions. Accident policies do not cover injuries resulting from intentional extraordinary overexertion, although injuries by overexertion which is caused by an emergency or by a danger are not excluded. Likewise, the same is true of overexertion in the performance of reasonable acts within the course of the insured's specified occupation. For example, an injury to a machinist lifting a heavy piece of machinery in the line of his regular duties was not held to be within this exception. In order to prevent recovery, the exertion must have been too much for the insured's physical strength, and it has also been asserted that he must have been aware of the fact that he was overtaxing his physical strength.

Voluntary relief association. *See* Corporation benefit fund; Establishment fund.

W

Waiting period accident and health insurance. Accident and health insurance is often sold with a waiting period; that is, the benefits are payable only after the policyholder has been disabled longer than the specified waiting period, which may be one, two, three, or four weeks, or even as much as three months. The following is a typical waiting period clause: "No indemnity will be paid for disability which shall continue less than two consecutive weeks." The waiting period, then, may be defined as the time between the beginning of the disability and the payment of the benefit for loss of time. Under the foregoing waiting period provision, for example, no benefit is payable if the insured is disabled for only ten consecutive days.

The advantage of the waiting period is chiefly that it relieves the company from handling a large number of minor claims and, consequently, reduces the cost of the insurance, making it possible for the individual at a lower cost to carry more insurance against the possibility of serious disability. For example, some companies reduce the cost of the insurance 20 per cent for the one week waiting period, 30 per cent for two weeks, and 45 per cent for four weeks. *See* Accident insurance; Health insurance.

Waiver. Standard provision No. 2 covers the matter of waiver. This provision provides that the agent cannot alter the policy nor can it be altered unless the alteration is approved by an executive officer of the insurer and such approval is endorsed on the policy.

Waiver of impairment. Some companies will waive an impairment of an applicant for disability insurance. Waivers of this type are dangerous for substandard risks.

Walking or being on railway roadbed or bridge. Accident insurance policies may sometimes exclude from coverage injuries received by the insured while *walking or being on railway roadbed or bridge,* except while crossing at a public highway. Such provisions are intended to protect the company against the danger of injuries from trains. In order to amount to an exception under such a policy, the injury must be connected with particular hazards of railway tracks; that is, being struck by lightning while on the railroad track would not amount to such an exception. Also, to be within this

exception, the insured must be on the track voluntarily, not just by reason of an accidental fall upon the track, and so forth. This exclusion refers principally to the practice of trackwalking. Such limitations are not usually made applicable to railway officers or employees.

War risk hazard. *See* Military or naval service.

Weekly indemnity. Weekly indemnity clauses for injury and disease usually read as follows:

If such injuries shall not cause any of the above losses, but, independently and exclusively of all other causes shall wholly and continuously disable and prevent the Insured from the date of accident, from performing any and every duty pertaining to his occupation, the Company will pay the weekly indemnity above specified for the period of such continuous total disability but not exceeding fifty-two consecutive weeks.

Or, if such injuries shall not cause any of the above losses, but independently and exclusively of all other causes shall continuously prevent the Insured from the date of accident, or immediately following total disability, from performing some material part of the duties pertaining to his occupation, the Company will pay during such continuous disability, not exceeding ten weeks, a Weekly Indemnity of fifty per cent of the amount payable for total disability.

If such disease, directly and independently of all other causes, shall wholly and continuously disable the Insured and prevent him from performing any and every duty pertaining to his occupation, the Company will pay, beginning with the fifteenth day of disability, weekly indemnity at the rate hereinbefore specified for the period of such continuous disability, but not exceeding fifty-two consecutive weeks.

No payment shall be made for disability resulting from any disease for which the Insured is not treated by a licensed physician, nor shall indemnity be payable for the first fourteen days of any period of disability.

Weight. Height and weight information is required in the application for disability insurance. This part of the application enables the company to determine whether a medical examination is necessary. Any abnormality in height, weight, or history of a physical ailment that is of a recurrent character may cause the company either to decline the insurance or require a medical examination.

All applicants must come within the limits of height and weight prescribed in the following table.

	MEN		WOMEN	
Height Ft. In.	Under-weight Limit	Over-weight Limit	Under-weight Limit	Over-weight Limit
5—0	96	165	88	165
5—1	98	171	92	167
5—2	99	177	96	170
5—3	102	183	100	173
5—4	105	189	105	177
5—5	107	196	107	181
5—6	110	203	110	185
5—7	114	210	114	190
5—8	117	217	117	195
5—9	120	225	120	200
5—10	123	233	123	206
5—11	127	241	127	211
6—0	132	250	132	217
6—1	136	258	...	...
6—2	141	265	...	...
6—3	145	271	...	...

When an applicant weighs more than the maximum shown in the table, the risk is not acceptable for accident insurance. Excessive overweight is indicative of physical conditions having a tendency to cause sudden death under circumstances appearing to be accidental. Therefore it is necessary to prescribe the limits shown in the table.

In cases where the applicant weighs less than the minimum limit shown in the table, the risk will be considered in most companies only upon submission to home office of applica-

tion, with full particulars as to applicant's physical condition, health history, and apparent cause of underweight condition.

Wholly and continuously disabled. *See* Total disability.

Willful injury. *See* Intentional injury.